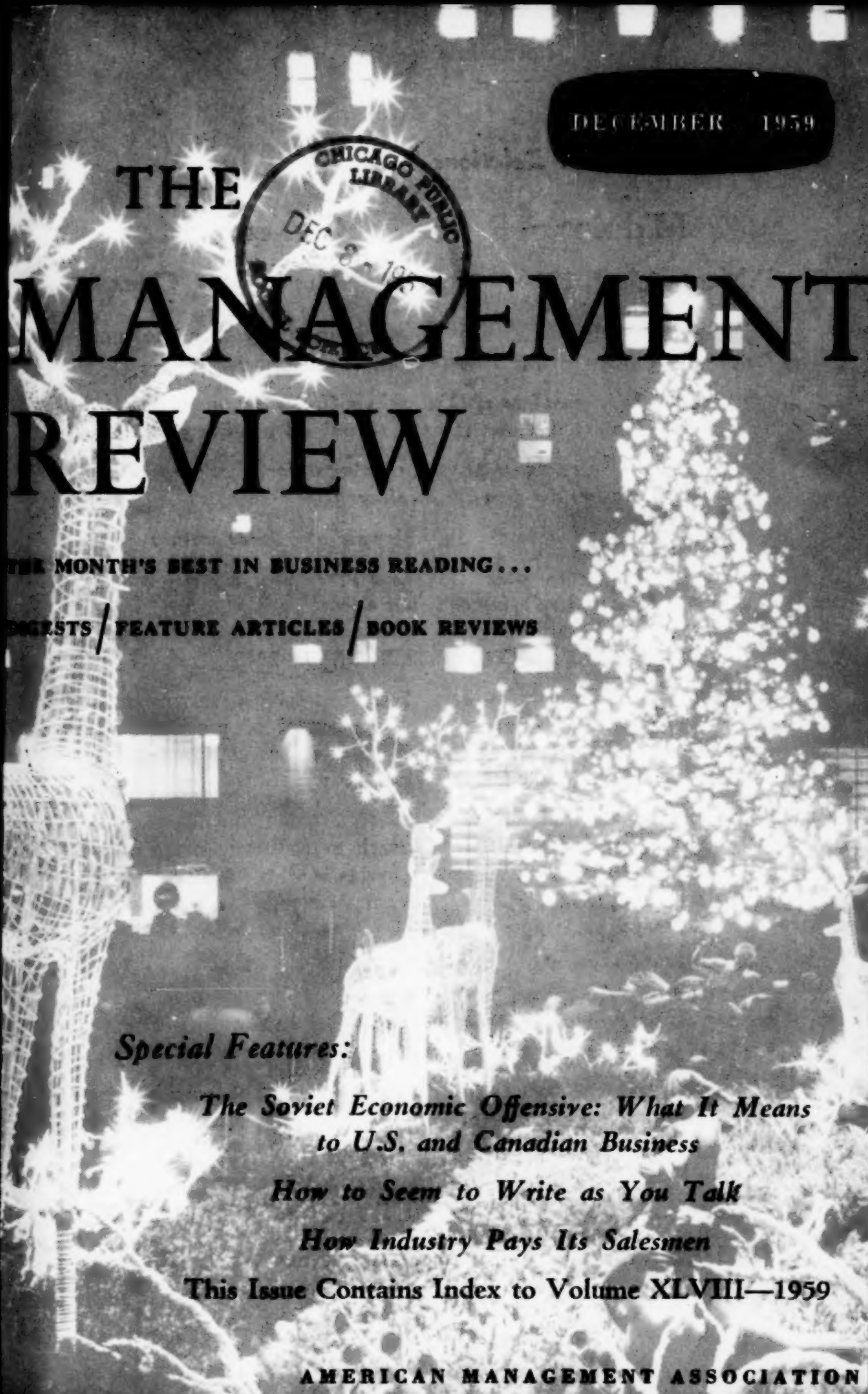

DECEMBER 1959

THE MANAGEMENT REVIEW

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The Soviet Economic Offensive: What It Means to U.S. and Canadian Business

How to Seem to Write as You Talk

How Industry Pays Its Salesmen

This Issue Contains Index to Volume XLVIII—1959

AMERICAN MANAGEMENT ASSOCIATION

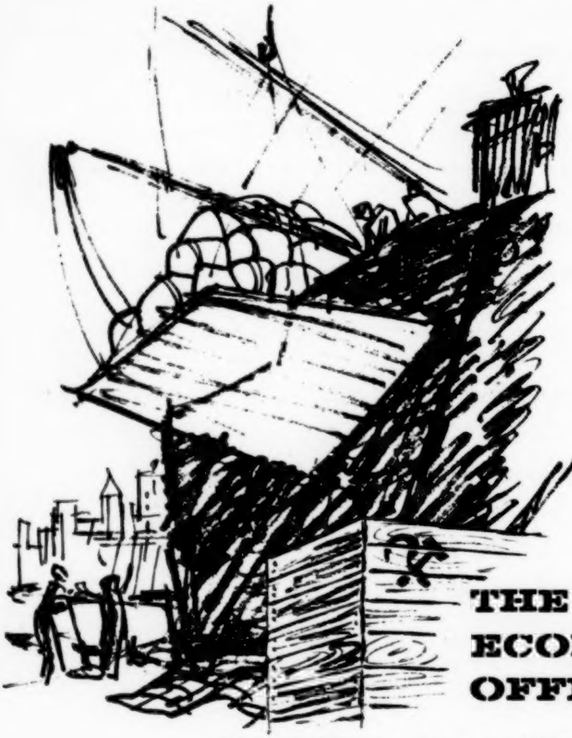
in this issue . . .

- **Economic Juggernaut.** Soviet spectaculars are by no means concentrated on outer space alone. For Russia's recent economic growth is nothing short of phenomenal, and her tactical use of trade—particularly as it affects underdeveloped countries—is a matter of growing concern among government and industry leaders. Based on a major new economic study, this month's opening feature article examines the massive production machine that is enabling the Soviet Union to become our most formidable competitor in trade, and its impact on industry in the U.S. and Canada.

- **How to Seem to Write the Way You Talk.** Possibly one of the penalties of success is that every executive has to read a certain number of letters and memos every week that are stuffy, stilted and—for all their attempted precision—confusing. But equally burdensome, and sometimes even a bit ludicrous, are the communications of the "write-the-way-you-talk" school, for typical conversational style simply does not stand up in writing. For those who would avoid either extreme, Robert Burger offers some recommendations (page 12) for writing reports and memos that *are* tight and pointed—yet retain all the ease and fluency of so-called conversational style.

- **What Makes Salesmen Sell?** Money, among other things. Though they are well aware of the importance of developing the salesman's sense of prestige, participation, and identification with the goals of the organization, companies that are concentrating on volume never underestimate the power of sound financial incentives to get their salesmen to bring it in. Richard Smyth's article on page 20 offers a comprehensive review of sales-boosting compensation plans in current use.

—The Editors



THE SOVIET ECONOMIC OFFENSIVE

What It Means to U. S. and Canadian Business

■ *Franklin A. Lindsay*

THE BASIS for the present Soviet economic capabilities abroad is the emergence of the Soviet Union as the world's second industrial power. The Soviet gross national product is now 45 per cent of that of the United States, and its over-all rate of growth is twice that of the United States.

But the true picture of relative economic power is substantially more ominous. Already the Soviets are spending on those things that contribute to national power about the same amount in real terms as is the United States. Soviet defense programs, industrial investment programs, research and development activities, and

"The free world economy and private businessmen must reckon with the hard realities of the growing Soviet economy and the international policies of the Soviet state. These problems, essentially new in kind, are becoming increasingly urgent with the expansion of the Soviet economy and the growing national power of the USSR" . . .
—C. Douglas Dillon, Under Secretary of State

foreign economic assistance programs, recomputed in dollar terms, are, in total, about the same as the comparable expenditures in the United States. In other words, the amount of goods and services allocated to these four purposes in the Soviet Union today is about equal, in real terms, to the comparable goods and services allocated to similar purposes in the United States.

Because the Soviet rate of growth is double that of the United States, the USSR in the future will be able to spend substantially larger amounts on those things that contribute to national power than will be spent in the United States, if present trends continue. By 1965, the Soviets will have, over and above present levels of expenditure, an additional $20 billion to $30 billion a year in assets available for the further expansion of their military and foreign economic programs.

SOVIET INDUSTRIAL CAPACITY

Because the Soviet Union directs about 90 per cent of its industrial investment to the expansion of basic industry and only about 10 per cent to the expansion of capacity for producing consumer goods, it has been able to expand industrial capacity at a

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This article is based on a report, *The Growth of Soviet Economic Power and Its Consequences for Canada and the United States,* by Franklin A. Lindsay, published under the auspices of the Canadian-American Committee, which is sponsored by the National Planning Association (U.S.A.) and Private Planning Association of Canada.

rate of about 9.5 per cent per year, as compared with 3.5 per cent for the United States.

This very high rate of growth is only possible because the Soviets have limited their per capita consumption, in real terms, to a level roughly 25 per cent of that of the United States. However, because the base of consumption is now so low, the Soviets can allow consumption to expand by about 5 per cent a year without endangering their over-all growth rate. The comparable figure for the United States and Canada is about 3 per cent a year, although the base is, of course, much larger.

Up to now, Soviet production has been used almost exclusively in building an industrial base and a modern military system. However, the industrial base is now so large that the Soviet management can, if it chooses, divert substantial resources abroad to foreign political ends without seriously interfering with further expansion. For example, in 1958, the Soviet Union produced four times the number of machine tools produced in the United States. A diversion of, say, 5 per cent of this output to foreign aid would give the Soviets a very large export capability without significantly slowing internal expansion.

The Soviet foreign trade managers can set export prices at any level, depending upon whether they are exporting primarily for economic reasons or for political reasons. If they are exporting for economic reasons, they simply have to adopt the Western price framework and undercut it slightly to sell whatever they wish to dispose of.

ACHIEVING SELF-SUFFICIENCY

The first consideration of Soviet trade policy is still the achievement of self-sufficiency and the autarchic protection of the economy. This policy means that Soviet foreign trade has been smaller in proportion to gross national product than even that of the United States. Soviet exports are now about 2 per cent of its GNP, while U.S. exports are about 3.5 per cent of a much larger GNP. However, as the Soviet economy grows, the Soviets will have an increasing capacity, even within this restriction of self-sufficiency, to disrupt world markets.

There are men high in this government who believe that this trade weapon is the most menacing weapon in the Communist arsenal. They see it as precisely the kind of weapon most difficult for a capitalistic society to defend against. They believe it will unbalance the whole commercial world if it is not countered effectively, and they are convinced that only radical new policies will be effective in the long run in dealing with it.—James Reston in *The New York Times.*

In quantitative terms, Soviet and satellite foreign aid has fallen far short of comparable free world efforts. In round figures, Soviet bloc aid commitments to 18 noncommunist underdeveloped countries have been equivalent to about $2.4 billion since its economic program was started in 1955, while U.S. aid to the same countries during the same period has amounted to $4.4 billion. But the magnitude of the threat cannot be measured solely in terms of the resources that the Soviet Union and the satellites now are allocating to the economic offensive. The Soviet Union is already in a position to step up its economic assistance substantially, and its capacity will further increase over the next few years.

In addition, the communist programs are usually highly selective and approach or exceed Western programs in size in specific countries. Yugoslavia, India, Afghanistan, Egypt, Syria, and Indonesia have received more than 90 per cent of the total credits.

POINTS OF CONFLICT

If Russia were to deploy her wheat and grains, lumber, pulp, and base metals in a serious attempt to become a leading world trader, the impact would be great on the free world economics. Canada—being like the USSR a northern economy rich in bulk agricultural, forest, and mineral resources—would be the first to suffer from any disruption in world markets for these products, and would probably suffer more than any other country.

It may be useful to look at a few specific areas of economic conflict of special interest to Canada and the United States from a world-wide rather than a country viewpoint. The points of conflict

illustrate both the varied Soviet capabilities and the specific free world vulnerabilities that are open to Soviet exploitation.

Agriculture

Wheat. Since the Bolshevik revolution, agriculture has been the Achilles' heel of the Soviet economy. Now, for the first time, it appears to be fairly well managed and production is expanding more rapidly than population. The 1955-57 average of grain production was 38 per cent higher than the 1951-54 average.

Khrushchev is now committed to the rapid expansion of meat and dairy production as a part of his program to raise living standards. This program, in turn, will require substantially greater quantities of animal feeds, for which Soviet climate and soil are not particularly well suited.

If Khrushchev's objective is a self-sufficient economy, he will probably be exporting little wheat. But if he wants to get the best out of his agricultural lands, he will be able, over the years ahead, to export five to ten million tons of wheat a year and import similar amounts of animal feed. This wheat export capability can, as in the case of other exports, be available for political deals in crucial areas of the world where price can be of secondary importance.

Rubber and coffee. The industrialized nations of North America and Europe have regularly taken most of the world's production of rubber and coffee. As a result of overproduction of coffee and the replacement of natural rubber with synthetics, the countries dependent on exports of these commodities for their foreign exchange find themselves in increasingly difficult positions, or they are finding larger and larger part of their total exports going to the Soviet bloc. There is thus created the type of situation that is ideally suited to Soviet exploitation. The people of these countries are only too willing to believe communist propaganda, which claims that the declines in prices are the result of the exploitation by the capitalists in order to increase their "monopoly profits." The Soviet Union is able further to exploit the situation by offering to take a part of the surplus in exchange for badly needed goods that the Soviet can supply.

The situation is aggravated by the dependence of many nations on the exports of one or two crops or minerals for most of their foreign exchange. For example, two-thirds of Brazil's export is coffee;

60 per cent of Bolivia's exchange earnings comes from tin; 93 per cent of Venezuela's earnings comes from oil; 80 per cent of Burma's earnings comes from rice; 80 per cent of Malay's earnings comes from rubber and tin; and 70 per cent of Thailand's earnings is derived from rice and rubber.

Lumber

Lumber is an important instance of increased Russian competition viv-a-vis Canada, especially in United Kingdom markets. Canadian exports of lumber to the United Kingdom have declined substantially since 1954-55 (from over $70 million at that time to not much over $40 million in 1958), while Russian exports have continued to rise more or less steadily. In fact, since 1956, U.K. imports of lumber from Russia have consistently exceeded those from Canada.

It appears likely that Russia may well continue gradually to enlarge her share of the U.K. market. Moreover, any such increase would be unlikely to place any strain on Russian resources—the country's timber resources are very large, and total Russian exports of lumber in recent years have represented only about 5 per cent of total Russian production.

Potential threats also exist for other types of forest products—pulpwood, wood pulp, plywood, and paper. Over the next decade, competitive Russian trade threats could well materialize for a number of such products.

Oil

International oil operations form a special and important part of the economic battlefields. By 1965, about 25 per cent of Western Europe's entire energy consumption will come from oil, and perhaps 90 per cent of its oil will come from the Middle East.

The Soviets may be able to place themselves in a position to bring very serious economic pressures on Western Europe if they gain control, directly or indirectly, of a part of the Middle East's petroleum resources, or if the Arab nations themselves act to interrupt the flow of oil to Europe.

Meanwhile, the Soviets are moving vigorously to disrupt existing oil arrangements between producer countries and Western private

> ***Soviet economic aggression all over the world can be stopped. It can be met and conquered by American business and industry. . . . Admittedly, Russian economic warfare poses a threat to orderly world trade. It has been moderately successful up to now, and unless we counter it, it will continue to pose a most serious threat to the United States and the rest of the free nations.*—**
> **Henry Kearns, Assistant Secretary of Commerce for International Affairs.**

companies. The policy of the United States has been to withhold government economic aid for oil development where private companies were prepared, on a concession basis, to provide the capital and technical skills. Many countries, such as India and Brazil, have, up to now, found this politically unacceptable and have refused to enter into arrangements with foreign oil companies for exploration and development. As a result, the oil resources have not been developed, and these countries have had to use a large part of their foreign exchange earnings to import their petroleum needs.

The Soviets are now offering these countries assistance in exploration for oil and in the development of deposits without requiring participation in the profit of the oil produced. The result is that they are able to contrast favorably their "selfless disinterest" with the position of Western oil companies whose investment decisions are determined by commercial and profit considerations.

Metals

Because Soviet aluminum production is a relatively high-cost process, it is unlikely that aluminum in excess of domestic or bloc requirements will be produced regularly for export. The Soviet steel industry, on the other hand, is highly efficient and is being expanded at a rapid rate. Steel production has nearly doubled since 1951, and by 1965 will probably be further increased by 50 per cent over the 1958 capacity. If the target of 95-100 million tons is reached by 1965, it is possible that the Soviets will possess an export capability of considerable economic and political value.

Soviet sales of tin last year also caused some fear of Soviet dumping, and did result in exhausting the funds of the international

stabilization organization. However, it seems unlikely that the Soviets can continue tin exports as a regular thing. China, on the other hand, now regularly exports tin to the USSR, and may become a large exporter to the free world as well.

Canada sells about two-fifths of its aluminum, one-third of its nickel, and half of its copper, lead, and zinc in the United Kingdom and Western Europe. Even allowing for integrated industrial commitments, there is no doubt that sizable Russian offerings of base metals on the British and European markets could create serious difficulties for Canadian metals exporters.

International Civil Aviation

Geography has given the Soviet Union a special asset for fighting the cold war in the skies. Its huge land mass lies across some of the most important air routes linking the continents. The Russians have secured landing rights in London, Paris, Copenhagen, New Delhi, and Kabul, and are pressing hard for rights in Japan and New York. They have not found it necessary in obtaining these rights to grant Western power transit rights across the Soviet Union, and it is highly unlikely that they will find it to their interest to do so in the next few years. Now that the Soviet Union is producing modern jet transport aircraft, it is in a position to offer regular intercontinental services via Moscow that will be not only faster but cheaper than those offered by Western lines.

The Soviets are also in a position to provide technical services comparable with those of the West, and to sell or give to the smaller and less industrially advanced nations modern aircraft equal to the best the West can supply. If the penetration of a foreign airline is important politically, the price and terms of assistance can be as favorable as necessary.

THE SOVIET CHALLENGE

The Soviet economic threat is substantial and is growing rapidly. So far it is more a potential than an actual danger. Yet we are rapidly approaching a situation in which the Soviet Union will have very substantial assets to use, if it chooses, in displacing the industrialized nations of the West in the underdeveloped countries and in directly attacking the trade positions of Western nations. ◆

Your business correspondence will be less stilted and artificial if you try to write the way you talk—but it will also be disordered and inaccurate. Here are some tips on hitting a happy medium . . .

How to SEEM to Write as You Talk

■ ***Robert S. Burger***
Research Editor
The Amos Tuck School of Business Administration

MUCH OF WHAT YOU READ TODAY sounds stilted, pretentious, cold, artificial, and unfriendly. That's why it's such a chore to read and so hard to understand. Much of what you hear, on the other hand, sounds friendly, natural, and clear.

Despite this, and despite what some "experts" have been telling you—even despite the fact that you may happen to be an especially talented conversationalist—*don't* try to "write as you talk"!

Why not? Because spoken words—anybody's spoken words—of and by themselves are inaccurate, monotonous, disorderly, and inefficient. When talking, you hem, you haw, you go off on tangents; you stop, back up, and start over; you repeat, leave things out, and

get lost in your own sentences. You use words that clearly don't say what you mean—even some that say exactly the opposite of what you mean.

This is perfectly all right—as long as you use spoken language only for speaking. You get a spoken message across largely through tricks and devices other than words—through changes in pitch and inflection, for example, and gestures, and facial expressions, and bits of "business."

Moreover, a listener not only listens, but also reacts, and every reaction signals how well or how poorly you're getting through. Whenever you see that one set of words has failed to convey your meaning clearly—or, while conveying your meaning, has had an unintended, undesirable side-effect—you can try another; and if that also misses, a third; and so on, until your meaning is clear. All that matters, in most cases, is that you keep trying till you finally hit, because each hit usually erases the memory and the effect of all the misses that preceded it.

A reader, on the other hand, can't hear your voice rise and fall, can't see you wink, smile, or raise your eyebrows. He has to get your message strictly from your words. And, although he reacts just as a listener does, you can't see him or hear him, and you never know when you've missed and need to try again.

So if you really write as you talk—if you just open the faucet and let the words pour out—you'll confuse your readers, misinform them, bore them, and waste their time.

This doesn't mean that your writing has to be stilted, pretentious, cold, or unfriendly. On the contrary, it ought to *sound* just as friendly and natural as your speech. Artificiality—which includes all the unpleasant characteristics we've mentioned—is characteristic only of *bad* writing.

You can cure yourself of the disease of artificiality. It's produced directly by specific agents—specific bad writing habits—that can be eliminated.

AGENTS OF ARTIFICIALITY

There are many agents of artificiality, but seven are by far the most important. Every one of them is fairly easy to eliminate, once you learn to recognize it in your writing.

To demonstrate, here is a memo that contains all seven faults:

> In order that the comptroller's office may achieve more rapid liquidation of currently outstanding accounts, and thus maintain more effective relationships with vendors, it would be appreciated if personnel in all divisions would hereafter process all purchase requisitions through the purchasing department.
>
> It is recognized that this procedure has heretofore been adhered to in most cases; however, due to the occurrence of certain exceptions, it is believed that there will be a valuable saving of time and avoidance of duplication if all purchase requisitions are hereafter processed by the purchasing department.

The flaws in this memo may be somewhat exaggerated, but chances are none of us would be too surprised to find something very much like it in his in-box. Let's isolate the seven faults and take a closer look at them, before rewriting the memo to get rid of them.

1. Unnecessarily long and complicated sentences

Generally speaking, the reader wants short, simple sentences. The longer a sentence, and the more complex, the harder he has to work to understand it.

Of course, this doesn't mean that you should write *only* short, simple sentences. A simple sentence can convey accurately only one simple fact or idea, and many of the facts and ideas you want to communicate just *aren't* simple. And often it's not only the facts themselves, but their relationships, that need to be pointed out. If you insist on trying to jam complex ideas into simple sentences, the best that can happen is that they'll come through in some mutilated, approximate form; and if you restrict each sentence to one idea, the reader is almost certain to miss some relationships and—which is worse—misunderstand others.

The human mind is a pretty good instrument. As much as the average reader likes to be spoon-fed, he *can* figure out a long, complex sentence—provided nothing about it but its length and complexity stand in his way. Copy that's too simple gives your reader the impression that you think he's an idiot—and it's usually painfully wordy, as well.

So excessive simplicity can hurt you—sometimes more seriously

than excessive complexity. But it's hard to write too simply, even if you try to. The kind of message that one adult communicates in writing to another almost necessarily includes a certain number of complex or related ideas, which practically demand to be expressed in complex (or at least somewhat complicated) sentences. You seldom have to worry about writing too simply, but you do have to be on guard against too much complexity.

A little complexity goes a long, long way. The very least you can get by with—without oversimplifying or otherwise distorting your message—is generally plenty, and any more is too much.

People write with much more complexity than they need. They present independent facts and ideas as if they were related, simple ideas as if they were complex, fairly complex ideas as if they were terribly complex, and really complex ideas so *nobody* can understand them. Unless the reader absolutely has to read a message like that, he's likely to toss it aside. And if for some reason he can't toss it aside, he's likely to misunderstand at least parts of it—and he may miss the whole point.

2. *Unnecessarily long, formal, or unusual words*

The writer of our sample memo has made life unnecessarily complicated for his readers by his choice of words. For example:

More rapid instead of *quicker* (but the writer really meant *more prompt*).

Liquidation instead of *payment.*

Currently outstanding instead of nothing at all.

Maintain instead of *keep* (but the writer really meant *build*).

More effective instead of *better.*

Relationships instead of *relations.*

Vendors instead of *sellers* or *suppliers.*

Personnel instead of *employees* (but neither of these is really desirable, and neither will get into our rewrite).

Hereafter instead of *from now on.*

Requisitions instead of *requests.*

Recognized instead of *known.*

Heretofore instead of nothing at all.

Adhered to instead of *followed.*

However instead of *but.*

Certain instead of *some.*

Believed instead of *thought.*

Hereafter instead of *from now on* (but the writer really meant *always*).

Now in this area, too, it's possible to go overboard: Disregard anyone who tells you *never* to use a long, hard, unusual word. Simplicity is as desirable and important in words as it is in sentences, but sometimes the simpler of two "synonyms" just doesn't say what you mean. Sometimes the harder one is more accurate, or more forceful, or more economical; then you have to decide whether it's worth what it would cost you, and use it if you decide that it is.

Simplicity isn't the *only* writing virtue, but it is tremendously important and desirable, and you should never lose it without a good reason. Always use the easiest of two or more words that would convey your meaning equally well.

This, of course, our memo-writing friend failed to do. True, many of his "hard" words are only relatively hard; unquestionably, everyone who got the memo understood them perfectly. The point is that he used harder words where easier words would have told his story just as well, and so threw up needless barriers between himself and his readers.

3. *Failure to use usable pronouns*

Many otherwise good writers weaken their memos and make them much more difficult than they have to be because they have a strange fear of using pronouns. Just because he didn't want to say "I" or "we," for example, the writer of this memo was forced to resort to such distortions as these:

It would be appreciated if . . .

It is recognized that . . .

It is believed that . . .

There will be a valuable saving of time . . .

This form, which we might call the "impersonal introduction," almost always detracts from the strength of a sentence. It's a roundabout way of saying something that you can say with fewer words just by using a pronoun and saying it directly.

Maybe one of these impersonal introductions in a hundred won't hurt your memo very much; maybe one in a couple of hundred will

let you express an idea a little more smoothly or subtly than you could express it otherwise. But they rarely do much good, they usually hurt, and they often hurt very badly. Probably the best rule is to leave them out whenever you can and go back to making direct statements and using good, straightforward pronouns where they're needed.

4. *Passive verbs that should have been active*

This is often related to the point we've just discussed. Because a writer shies away from pronouns—or because he thinks it sounds more important—he turns his sentences around and uses passive verbs instead of active ones (would be appreciated, is recognized, has been adhered to, etc.).

Sometimes—especially when what's done is much more important than who does it, when who does it doesn't matter at all, or when who does it goes without saying—you should use the passive voice.

But in any other kind of sentence, the passive voice is likely to make you sound prissy, aloof, timid, or condescending, or maybe a combination of these. And if you're typical, you use it far too often.

5. *Club-member phrases*

Club-member phrases are the long-winded, pompous, roundabout word combinations that writers seem to use for no other reason than that other writers use them. The rewritten version of this memo will get rid of such club-member phrases as these: *in order that, personnel in all divisions, in most cases, due to.* (You may also object to *due to* on the grounds that it's grammatically incorrect, but we don't have to fight the grammatical battle here. Just the fact that it's a club-member phrase and serves no purpose is reason enough to get rid of it.)

6. *Mutilated verbs*

Verbs are to language as engines to planes: They provide the necessary motive power. Some verbs measure their power in hundreds of horses, others in fractions. And when you want to fly, you'd better give your language airplane-type engines, not the kind you'd stick on a rowboat.

Your memos and letters will never get off the ground if you (1) take potent verb ideas; (2) twist them into nouns; and (3) hitch them to puny, undernourished verbs that can hardly lift their own weight. And in addition, you'll add many words to your copy when you do this.

Every one of the verbs that is missing from this memo would have helped it. The author twisted *occur* into *occurrence, save* into *saving, avoid* into *avoidance*. He also twisted *pay* into *liquidation* and *improve* into *more effective,* hitching the first to *achieve* and the second to *maintain,* thereby building the club-member phrases *achieve liquidation of* and *maintain more effective*. In these cases—as always when a verb is twisted or is mutilated—he traded better, stronger verbs for poorer, weaker ones.

7. Unnecessary, obtrusive repetitions

The writer of our sample memo unnecessarily repeated several words and phrases—*hereafter, process, purchase requisitions, purchasing department*—achieving a most unpleasant effect.

But not only that: In his last eleven words he unnecessarily repeated an entire idea that should have been quite clear already. And this is the kind of repetition that really hurts a memo.

If you're typical, you repeat much more, and much more often, than you should. You can break the habit fairly easily once you're aware of it.

ELIMINATING THE FAULTS

Now we're ready to go back to the original memo. Having broken these seven bad habits, our friend might have written his memo this way:

> So we can pay our bills more promptly, and thus improve relations with our suppliers, will everybody from now on please process all purchase requests through the purchasing department?
>
> I know this is how we've usually done it—but sometimes we haven't. And I think we'll save valuable time and avoid duplication if we do it always.

This is still not a perfect memo by any means. For one thing, its organization, which we haven't changed, leaves much to be desired. Even in something as short as this, it's best to come to the point

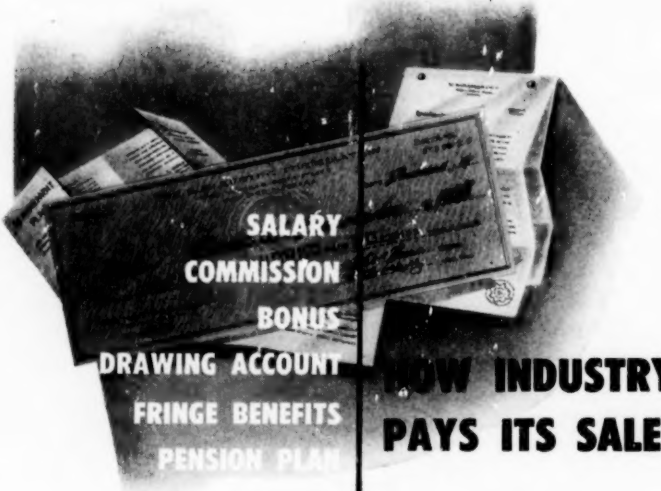
immediately, and this author backed into his memo with an idea that's secondary, at best.

By putting first things first, he might have written:

> From now on, please be sure to process *all* purchase requests through the purchasing department.
>
> This procedure hasn't always been followed in the past, but by making it a rule we can save time, avoid duplication of effort, and keep our suppliers happy by paying our bills promptly.

But we aren't concerned here with literary values or excellence of style. We're concerned only with how to make your writing sound friendly and natural—how to *seem* to write as you talk. This doesn't require the skill of a Hemingway; anyone can do it simply by getting rid of a few bad writing habits. The rewrite, whatever its faults, does make its point clearly and naturally—and the only reason is that seven agents of artificiality have been eliminated. ♦

"Well, if it's just a mere formality, why don't you cosign it?"



HOW INDUSTRY PAYS ITS SALESMEN

■ *Richard C. Smyth*
Smyth and Murphy Associates, Inc.

IN TODAY'S ECONOMY, the most important single function in most businesses is securing profitable sales. Products and services are rarely bought. They must be sold.

Profitable sales depend in large part on the competence of the sales force. Of course, salesmen should be carefully selected, thoroughly trained, and properly supervised. But financial incentives remain the most powerful way to motivate salesmen to achieve the company's specific sales objectives.

To increase sales volume and to control sales costs, financial incentives have been widely used to supplement or replace straight salary compensation for salesmen since before World War I. Today, at least three-quarters of all salesmen participate in some type of financial incentive program.

This article is based on a chapter from Mr. Smyth's forthcoming book, *Financial Incentives for Management,* which will be published by the McGraw-Hill Book Co., Inc., in January, 1960.

Although a wide variety of specific plans have been developed, there are only three basic methods of compensating salesmen: the commission method of payment, salary alone, and salary plus bonus and/or commission. Each method has its advantages and its disadvantages.

THE COMMISSION METHOD

The commission, a percentage of the sales made or of the profits secured, is one of the oldest forms of financial incentive used in business.

The most commonly used basis for the calculation of commission earnings is dollar sales volume. However, commission rates are also frequently expressed as a money payment per unit of product sold—ton, case, barrel, etc.

The commission rate may remain constant, regardless of the number of units sold, but if top management wants to reduce the effect of "windfalls" and limit salesmen's income, the rate can be regressive, decreasing as the volume sold increases. On the other hand, if top management wants the strongest possible financial incentive to stimulate increases in sales volume, the commission rate can be progressive, increasing as the volume sold increases.

Commission payments may be based on orders, shipments, invoices, or collections. Typically, however, commissions are paid on the basis of shipments, not orders, and customer returns and allowances are deducted in calculating commission earnings.

A commission plan can be "straight" commission, under which the salesman pays his own travel and business expenses, or the company can pay all or a portion of such expenses. The company may also provide a drawing account against future commission earnings. The salesman must repay the amount of the "draw" not covered by his commission earnings for the time period involved. Such drawing accounts usually approximate 70 to 80 per cent of the salesman's anticipated gross earnings.

When the drawing account is a "guaranteed draw," the salesman is not expected to repay anything if his commission earnings amount to less than the draw. This arrangement is practically the same as a salary-plus-commission plan.

Commission plans are widely used in certain industries—life

insurance, office supplies, textiles, shoes, and the garment trades. They are very attractive to some of the better salesmen, who refuse to work on any other basis because of the very high earnings and complete freedom of action they enjoy.

Commission Plans—Pro and Con

From a company's point of view, there are some definite advantages to straight commission plans. They have helped many small or inadequately financed firms survive, as cost of sales is predetermined and no sales expense is incurred until the product is delivered to the customer. Commission plans also provide the maximum financial incentive and tend to eliminate incompetent salesmen. These plans have worked well in highly competitive industries, where cost of selling is a substantial part of the cost of doing business and aggressive selling and strong financial incentives are needed.

There are also some serious disadvantages to commission plans. Many salesmen object that they do not provide a steady income over good and bad business periods. From the company's point of view, the sales manager has difficulty getting the men who sell on commission to fulfill the whole job. Because they want to sell where and how they can make the most money the fastest, their records and reports tend to be inaccurate, incomplete, and slow in reaching the home office, their service and missionary work are disregarded, and their small accounts are neglected in favor of large ones.

THE SALARY METHOD

From 20 to 25 per cent of all selling organizations compensate their salesmen on a straight salary basis, with no form of supplemental compensation.

This basis of payment has some advantages: the salesmen receive a steady income, and the company is better able to control their time and direct their efforts to specific assignments. A salesman is usually expected to perform a number of nonselling tasks—making service calls, reporting on competitive activities, setting up displays, investigating customer complaints—things that need to be done to pave the way for future sales. Salesmen paid solely or primarily in relation to quantity of product sold often slight these nonselling tasks, which, they feel, cost them money.

Another advantage of straight salary compensation is that there is less inducement for a salesman to overstock a customer or use high-pressure selling methods. In addition, the salesmen are more willing to accept territorial changes and do missionary work, and teamwork between members of the sales force is easier to achieve.

However, there are also disadvantages to payment on a salary basis. Salesmen who hear of the large incentive earnings of other salesmen in other companies feel underpaid. The better men in the sales force also feel that they are carrying the least effective individuals under the salary method of payment.

From the point of view of top management, compensating salesmen on a salary basis poses one large disadvantage: there is very little incentive for salesmen to sell more. In one medium-sized company, for example, salesmen of a major product line were compensated on a commission basis, and salesmen selling the other product lines received a straight salary. The commission salesmen usually left their homes Sunday afternoon or evening to be able to make the first calls in their territories early Monday morning; the salaried salesmen left home Monday and were seldom able to make their first calls before eleven o'clock.

Where large capital goods items or highly technical products are being sold, the salesmen are usually sales engineers, and they may be required to act as technical consultants to the customer both before and after a sale is made. In this type of situation, and in cases where the salesman's work is outlined in detail and closely controlled and checked by his superior, the salary method of payment is most appropriate.

THE SALARY PLUS INCENTIVE METHOD

In recent years, there has been a trend away from straight salary or straight commission and an increasing use of salary plus some form of incentive pay. About 55 or 60 per cent of all selling organizations now compensate their salesmen on the basis of a salary or guaranteed draw plus bonus and/or commission. In some companies, all salesmen are paid on this basis; in others, salesmen may start on salary and get a commission after their sales reach a given level.

The combination plans consisting of part salary and part incentive pay have the same advantages and the same disadvantages as

their respective components, but to a lesser degree. Thus, a combination of salary and bonus provides more incentive pull than salary alone, but less than commission alone. Of course, the proportion of salary to gross income can be varied to increase or decrease the incentive pull, depending upon the sales objectives and the circumstances.

DESIGNING A PLAN

Salesmen's incentive bonus plans should be designed to meet the specific needs and objectives of the company concerned. Even if a plan is borrowed from some other company where it has worked well, it will only prove satisfactory if all of the conditions are the same—which of course, they almost never are.

The design of a salesmen's incentive bonus plan should start with a review of the company's sales problems and objectives and an analysis of the tasks the salesmen are expected to perform. Consideration should be given to the range and type of products sold, the markets involved, the methods of distribution, the type and extent of advertising and sales promotion material provided, the prevailing salesmen's compensation practices in the industry, and the previous history of compensating salesmen in the company.

In most companies, when salesmen's positions are analyzed, it will be found that the duties fall into two basic categories—selling and nonselling activities. Selling activities usually involve such additional responsibilities as developing new accounts, concentrating on a given territory or kind of account, and pushing profitable or special items. Depending upon the products sold, the nonselling activities could include such tasks as preparing records and reports, attending meetings, traveling, investigating customer complaints, training salesclerks or new salesmen, setting up dealer displays, providing customer service, and building customer good will. To facilitate analysis, a detailed position description should be prepared for each sales position.

THE SALARY-BONUS RATIO

The next step in the design of a salesmen's incentive bonus plan is to determine the desired relationship between the salesmen's salaries and their anticipated gross income.

There are two basic approaches to this problem. In the first, each sales position is described and evaluated to determine appropriate salary ranges in relation to other management positions in the company and other comparative positions throughout the industry. Next, an incentive bonus opportunity is added—usually 20 to 35 per cent of the salesman's salary.

The other basic approach is to ignore position evaluation and the salaries paid in other positions and determine the gross amount the company is willing or able to pay for the satisfactory performance of the salesmen's duties. A predetermined proportion of this amount is established as salary, the balance is the bonus opportunity. In companies using this approach, salaries are usually lower and the bonus will range from 35 to 50 per cent of the salesman's salary.

When the sales situation is highly competitive, when a company is undercapitalized, or when there are other economic difficulties, this second approach may be necessary to achieve the tightest possible control over selling expenses with high financial motivation for salesmen.

THE CHANGING ROLE OF SALESMEN

In past years, salesmen were often treated as a breed apart and, in many cases, not included in company pension plans or other benefit programs. They were sometimes paid on a straight commission basis and sometimes paid a small salary or guaranteed draw, with by far the greatest proportion of their incomes depending on volume of goods sold. Thus, it was relatively easy for top management to think of the salesman as being in business for himself.

In recent years, this picture has been changing radically. As products become more technical and as selling gives way to the broader concept of marketing, the salesman's duties are becoming more numerous and complex. In more and more cases, group selling is involved, salesmen and sales engineers must cooperate to make the sale, and customer service becomes increasingly important. As a consequence, some realistic correlation of the salesman's salary and bonus opportunity with the balance of the organization becomes necessary. For these reasons, more and more companies are using modern position evaluation techniques to determine fair salary

(*Continued on page* 63)

BUSINESS DIGESTS OF THE MONTH

What's ahead for MARKETING in the 1960's?

Condensed from Printers' Ink

THE NEW DECADE almost upon us will see a constant battle for the consumer's discretionary dollar. Marketing management will play a major role in that battle. Marketing has undergone countless changes over the past several years, and there are certain to be even more in the 1960's.

The outlook for the future includes more problems than before for marketing management, chief among them being complacency, failure to change, and failure to understand the nature and implication of new trends.

Some companies, for instance, have only recently responded to the long-obvious trend to suburbia by opening distribution in suburban areas. Such cases reveal what might be called a "learning lag." The marketing concept itself, years old for some companies, is still "new" to many. One marketing consultant reports that he is kept busy conducting orientation seminars on the marketing concept for executives of some large companies.

If predictions come true, the United States population will grow at the rate of 3,000,000 persons a year in the decade ahead. The result would be bigger population segments scattered throughout the nation, each segment backed by increasing discretionary income, and each presenting a separate marketing problem. With markets—and marketing itself—expanding into these regions at a rapid pace, product success will depend more and more on a new kind of total management: the ability to organize these segments into a manageable and profitable whole.

Many national manufacturers share the experience of a marketing manager who, examining share-of-market reports on one product, realized that while the company's share nationally was 15 per cent, its regional shares varied from 3 to about 30 per cent. Reason for the lower shares: regional competition (including private labels).

This is only one reason why products and services have been found to sell differently in different regions. Others include climate, legislation,

ethnic composition, average consumer age, and established product loyalties. Even within one of these categories, buying habits vary. For example, the buying pattern established for a particular product by elderly retired people in Southern California may differ significantly from that of a similar group in northern New England.

Several retail distribution trends appear to have great significance for marketing men: the expansion of multiline outlets, the expansion of supermarkets in some areas to mammoth discount centers, and the increase, in other sections, of the compact "bantam" or "superette" stores.

Also important is the continuing battle between the downtown and the suburban shopping center. While many have pronounced downtown shopping dead or dying, Toledo reports initially good acceptance for its "See Way" mall, which closed off four streets to traffic and transformed them into a traffic-free parkway for shoppers.

At the other extreme, Atlanta opened one of the biggest shopping centers in the country, Lenox Square, with branches of the city's two major department stores (Rich's and Davison-Paxon) seven miles from downtown Atlanta.

One of the more significant retail changes is the increased use of vending machines. The National Automatic Merchandising Assn., which represents the industry (except for coin-operated laundries, amusement games, and juke boxes), estimates that vending machine volume has increased 40 per cent to $2.1 billion in the past five years, and could double in the next ten—even triple, if planned technological improvements work out.

The big bottleneck for automatic vending has been the problem of changing bills, but bill-changing machines are already being tested. Linked to multiple-merchandise vendors, this could open new vistas for many manufacturers.

Inevitably, changes in distribution—particularly the growing use of profit-conscious headquarters buying committees in the supermarket field, and increasingly selective buying elsewhere—have led to new ways of selling to retailers, with heavier emphasis on selling the manufacturer's promotional efforts for his product.

For the vast complex of problem-solving in the shifting market, marketing management will have a heavy arsenal of tested tools and new ones.

The two basic management tools—planning and organization—will get broader and deeper use in solving marketing problems in the 1960's. On the highest level, there will be more long-range planning, directed by marketing considerations, to set guide lines of growth for five and ten years.

Many companies are coordinating their short-term efforts through annual marketing master plans, which are combinations of plans for each product. These include a profit-and-loss forecast and a program for turning each product plan into reality.

At the core of all planning will be product planning, in various forms. Each form is aimed at answering critical questions: What will sell—where, when, and how? What products should be added to the line or deleted from it, and how can these changes be made most profitably?

Top management will play an increasing role in product planning. As Robert Dick, president of George Fry & Associates, points out, only top management can answer the basic questions: whether to improve profit through deeper penetration of existing lines, through internal development of new products, through diversification within the company, through acquisition of product lines by buying other companies, or through any combination of these.

The pressure to diversify grows as companies and industries approach saturation of established markets with established products. In the meat-packing industry, where regional competition and new processes have been important, the big packers have been forced to turn to diversification outside their traditional product lines. Forty per cent of Armour's investment is in non-food facilities, and the outlook is for even greater diversified activity.

The key issue in diversification is whether new lines can be integrated into the company's marketing system and existing facilities. When the question of proper integration is ignored, the results can be costly. The Budd Co. diversified widely out of the transportation equipment field, only to lose volume and profits because it lacked familiarity with marketing and distribution methods in the new fields. Budd has since established an effective new marketing organization, and its diversification is living up to original hopes.

Whether concerned with internal development of new products or acquisition—both of which will grow greatly during the 1960's—more product decisions will be based on more extensive marketing research.

In a recent survey of executives by *Printers' Ink,* 87 per cent of 410 respondents reported that their companies are doing more marketing research than five years ago, and 73 per cent expect to do more in the future. However, management attitudes toward it vary widely. For example, in discussing their most recent new-product introductions, 23 per cent of the respondents said marketing research was introduced after the product was already in distribution, while 32 per cent employed it at the product's conception.

Better understanding of various research techniques may stimulate their wider use. A little over half the respondents (55 per cent) said they feel they understand consumer research and (54 per cent) the use of mail surveys. But only one of the five claimed a working knowledge of semantic differentials, tachistoscopes, and perception research.

Motivation research is another area of controversy. However, although motivation research has been criticized for some of its practices, many companies find it highly useful. And all agree that perhaps the greatest need in the 1960's will be for wider use of the various forms of psychological research (MR is only one) to find out why consumers buy.

A dominant feature of research in the 1960's is certain to be increased use of test-marketing. Sol Dutka, president of Audits & Surveys, calls it a "marketing laboratory," in which every element of product planning is tested under market conditions to avoid losses in national distribution.

As planning is important in marketing activity, so is proper organization of the basic marketing functions: advertising, sales, marketing research, and product development. But more companies are concentrating on one specific element of organization. This is the product manager (a concept first used widely by Procter & Gamble). He is, in effect, the marketing manager for a product or product line, and is responsible for all planning for it.

The reason for product management organization is inherent in the increase in product lines as companies try to keep up with changing demand and changing conditions. With more products and markets demanding more of a company's attention, it has become increasingly difficult for central marketing management to oversee every aspect of every product.

There are two basic forms of product manager organization. Nestle Co. has "full-scale marketing managers." The head of each of three divisions handles his own marketing research, advertising, product planning, and sales.

Seagram, which has now returned to this full-function kind of organization, for 20 months used the second type—"sales management"—in which the product divisions concentrated on sales and distribution, while advertising, research, and product planning were controlled centrally.

With new concepts of marketing organization gaining wider acceptance, there will, of course, be problems of conflict over responsibility, authority, and other issues. But the alert leadership of marketing-minded top management can weld marketing personnel into strong teams ready to do battle in the competitive struggles of the new decade. ♦

Credit Buyers Aren't Big Spenders

DO PEOPLE WHO USE CREDIT tend to spend more than those who pay cash? The answer is no—at least in the purchases of household appliances, home improvements, and cars—according to Prof. James N. Morgan, of the University of Michigan Economics Department, who bases his conclusions on interviews with 16,000 consumers conducted by the university's Research Center.

Most consumers spend between 8 and 10 per cent of their income for these items, Morgan reports, whether they buy on credit or pay cash. This proportion is remarkably stable for families with incomes ranging between $1,000 and $7,000.

The interviews also revealed that home ownership and family status play a large role in these types of spending. For instance, young childless married couples who own their home spend 23 per cent of their income for these items, in contrast to elderly couples living by themselves in rented quarters, who spend only 7 per cent for this purpose.

How will industry be affected if reduced world tension brings sharp cutbacks in defense spending? Here's what we can expect . . .

If the COLD WAR Ends

Condensed from Nation's Business

SHOULD U.S. industry and business be afraid of peace? Would sharp cutbacks in defense spending mean a recession? Or would civilian spending make up for the loss of military contracts?

These questions have been looming larger than ever in the minds of U.S. businessmen since the September visit of Premier Khrushchev. But any fears they might have that an abrupt thaw in the cold war would hurt the economy seem needless. Far from causing a recession, cutbacks in defense spending should bring an unprecedented boom.

Here are some of the developments that could be expected in the wake of such cutbacks:

- A rise in consumer spending far surpassing the cut in military spending, concentrated on major items like houses, automobiles, furniture, and appliances.
- A tremendous upsurge in spending for new plants and equipment.
- Larger incomes for people to spend and invest.
- A higher standard of living.
- Lower taxes.
- A larger labor force.
- Increased pressure for federal aid of various kinds.
- A temporary inflation threat which can be effectively countered.

Some industries and individuals might be hurt at first by defense cutbacks. But this would be temporary. The big question is how quickly and to what extent would consumer buying take up the slack left by reduced military spending? What we can anticipate is that probably in one year—certainly in two—the economy would be stronger than ever.

This prediction is supported by

what has happened after previous cuts in military spending:

In 1919, U.S. military spending was $18 billion—more than 20 per cent of all business done that year. These expenditures dropped to $6.5 billion in 1920 and to about $5 billion in 1921. But total spending dropped less than 5 per cent in constant dollars in 1920, and 9 per cent more in 1921. By 1922, the economy was back to the 1919 level and in 1923 it was 10 per cent higher.

After World War II, defense spending was cut 90 per cent or $145 billion (in 1958 dollars), but total business dropped only 13 per cent in 1945, unemployment never went above 4 per cent, and recovery came as quickly as in 1919.

After Korea, defense spending dropped 25 per cent, but the total volume of business dropped less than 2 per cent from 1953 to 1954, and by 1955 business was 6 per cent above previous peaks.

In all these periods, consumer shortages and inadequate plant capacity helped to speed the upturn. Today industry has nearly adequate capacity in most lines and consumers are well stocked. The need to spend is less urgent than after a war period.

How much these differences would delay an upturn in consumer spending after a defense cutback depends on the answers to these questions:

How much would defense spending be cut?

Even assuming the end of the cold war, we would not end all defense spending. A probable first step would be to reduce our offensive forces. We could cut back outlays on manned bombers, on atomic submarines, on foreign bases, and reduce the size of the armed forces.

We would maintain our defense establishment and continue work on missiles because of the value of the research and as a deterrent to attack.

Such a program might cut spending in half, or by $23 billion a year.

How quickly would defense spending be cut?

One thing is sure: it will not be an abrupt cut. Precautions, both military and economic, would suggest that it be spread over two years at the least.

What taxes would be cut—and how quickly?

Some of the money saved through defense cuts would undoubtedly be used to give additional support to present government activities—highways, for instance. Assuming a figure of $3 billion for these purposes, a tax cut of $20 billion would still be possible.

If the slash in defense spending were spread over two years, taxes could be reduced $10 billion the first year, with the cuts being distributed proportionately through all the brackets of the personal income tax. In the second year, another cut of $10 billion could be divided equally between personal and corporation levies.

On the basis of these assumptions, what is likely to happen to the economy during these two years?

Personal income in the U.S. has been increasing at the rate of about 3 per cent a year. Within a few years, it is expected to reach $415 billion. Of this, federal income taxes at present rates would take $55 bil-

lion, leaving spendable income of $360 billion. A tax cut of $10 billion would almost double the anticipated income increase for that year. The number of households with disposable incomes under $5,000 a year would drop by more than 400,000, and those with incomes of $5,000 to $7,000 would increase by about 500,000.

So long as all consumer wants are not satisfied, this kind of added income is going to bring people to the market place. This new spending power would also shift market demand from military hardware to civilian goods, thus requiring major new investment in plant and equipment, which creates additional employment and purchasing power.

If the second year's $10 billion tax cut were divided equally between individuals and corporations, it would mean a corporate tax reduction of about 20 per cent. This would release money for dividends and for additional plant to meet increased sales. The plant expansion would help to absorb the 500,000 men who might be released from the armed forces.

Whether the consumer rush to market would feed an inflationary boom would depend on how well plant expansion kept abreast of increasing demand. If it appeared likely that the boom might get out of hand, it should be possible to delay the cuts in personal income taxes. It might be wise and feasible to have a second personal tax cut for later use.

All this adds up to the fact that, in the long run, the economy can grow as fast with a low military component as it can with a high one. It should be noted, too, that the civilian market grows in more stable fashion than does the military market. If the day ever comes when the Soviet Union is willing to fight with plowshares rather than swords, our economy will stand firm. ♦

Corporate Dollars Go to School

DESPITE THE FACT that profits were off in 1958, U.S. business gave about 23 per cent more to higher education than it did in 1956. The Council for Financial Aid to Education, Inc., which reported this interesting fact after its latest survey of corporations, also notes that eight of the companies in its sample made contributions despite operating losses. Some other highlights of the survey:

- The most striking increase in educational contributions was shown by banks (210 per cent more than in 1956).
- The number of companies giving at least 1 per cent of net income before taxes has doubled since 1956.
- The number giving $100,000 or more has almost doubled.

Dr. Frank H. Sparks, president of the council, concludes from these figures that "the most alert business management in the world regards the financial support of higher education as of the first importance."

—*Fortune* 10/59

With product ideas, inventions, and innovations springing up in all quarters, U.S. business is now calling on the services of a modern kind of matchmaker . . .

Product Scouts —

IDEA BROKERS FOR INDUSTRY

Condensed from Business Week

NEW PRODUCT IDEAS are constantly being created, not only by corporate research divisions but by small-company engineers, university researchers, and countless inventors in basement workshops. Companies want these ideas. For them, a real innovation can produce greater sales and profits, healthier product lines, or diversifications that might not otherwise have been possible.

To bring the ideas and companies together, a modern kind of matchmaker is at the service of U.S. industry: the new-product scout.

U.S. manufacturers compute that 12 per cent of sales in 1961 will be new products, according to a survey of capital spending plans by McGraw-Hill's Economics Dept. And Prof. Daniel Hamburger of the University of Maryland recently told the Joint Congressional Committee on the Economic Report that 70 per cent of the economically important inventions brought out in the past ten years came from independent inventors and small business.

The product scout has developed new ways to bring these inventions to light. He focuses his search for ideas on proven pay dirt—known inventors, specialists in strategic fields, small companies with imagination, university research laboratories. Or he hunts for unused ideas in the files of companies with big research operations. This vastly improves the chances of finding profitable innovations.

At the same time, the agent assures himself of an outlet by making advance agreements with companies that want new products. Both agent and company benefit from this arrangement. In most cases, it's impractical for companies to set up departments of their own to screen new ideas. The job is expensive and risky, because of the legal complications of handling other people's inventions. So they are willing to pay a fee or retainer to the new-product hunter, in hopes of finding a few items to add to their lines.

This way, the manufacturer gets

many of the advantages of a research and development department for the relatively low cost of the searcher's fees and royalties. The searcher does the work and solves the legal problems; the company, if it's lucky, gets a good invention.

The inventor profits from this setup, too. He's sure that qualified people with markets in mind will be scrutinizing his idea. If it is accepted, he usually needn't invest any more of his own money in its development.

As for the product hunter, he gains in several ways from having sponsors. He has a sense of direction in his search. If he knows the client's needs, it's easier to spot the right products. Working on a retainer, he can afford better staff members and facilities. This means better technical development market searching, and planning of the product—which gives it a better chance when it hits the market. This, in turn, improves the agent's prospects for long-term profits, since the license arrangement on a new product usually gives him a percentage of future sales income.

The new, closer relationship between product scout and manufacturer is rapidly making older methods of locating new inventions obsolete. For example, the city of Rochester, N.Y., has dropped the new-product clearing house from its Department of Commerce. The program was highly popular with inventors—in five years, more than 50,000 ideas were submitted. But only two dozen had any commercial promise, and only seven were ever produced and sold—not enough to justify the expense of the program.

Typical of the new breed of product hunter is John F. Rockett, president of Boston's Product Development Corp. For a flat $20,000 a year or $5,000 a quarter, the firm will screen ideas and present complete product proposals tailored to the client company's facilities. If the manufacturer buys an idea, he must do his own bargaining with the inventor for a license, but Rockett's firm gets 1 per cent of gross sales.

Another broker organization, the Mohawk Valley New Products Clearing House in Utica, N.Y., is nonprofit. It was formed last spring by a group of Utica businessmen and educators in the hope that new products would make more jobs for the community and bring in more sales dollars. Twenty member companies are entitled to bid for ideas that pass a screening committee; if they buy, the clearing house gets royalties based on sales, and passes on two-thirds of it to the inventor.

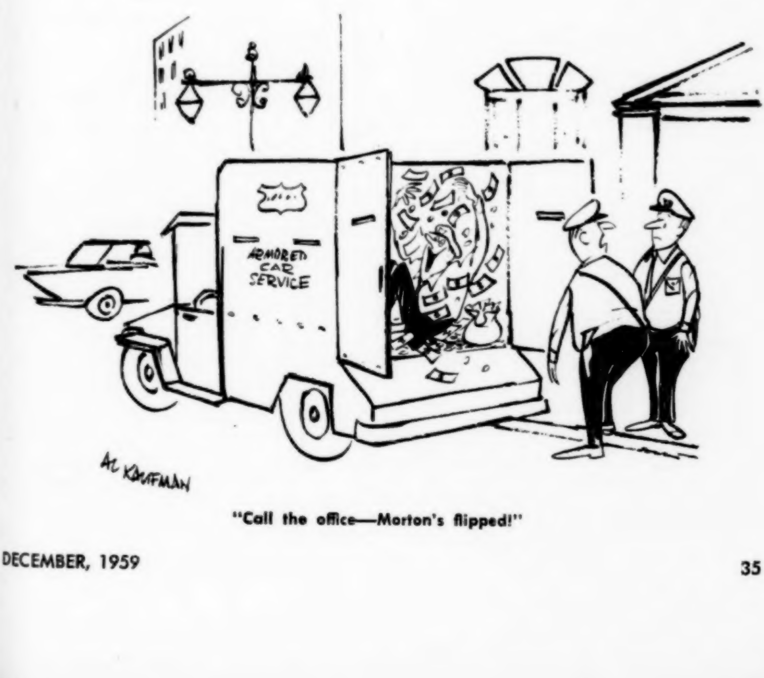
In Los Angeles, 30 manufacturers of everything from wheelbarrows to missiles belong to Associated Specialists, which solicits and develops new products specifically for its members. Several organizations exploit unused inventions and patents in corporation files. And the Navan Division of North American Aviation, Inc. hunts markets for ideas that emerge within its own shop as by-products of the company's efforts in aircraft, missiles, and electronics.

The National Patent Development Corp. of New York will track down unused patents for a client interested in a particular product. Among its other services, Wirth Management Co., consultants in Wilton, Conn.,

offers a Business Incubation Laboratory to nurse a new product through development, market testing and planning, and sales management. This is particularly valuable if a company is venturing into an unfamiliar field. After the product has proved profitable, Wirth turns it back to the client.

The seeker of a new product can also turn for help to the Small Business Administration's product assistance program. SBA illustrates and briefly describes about 100 patents a month in its Product List Circular, mailed free to 15,000 small businessmen. SBA will furnish the inventor's name on request, but it makes no attempt to evaluate ideas, beyond selecting the most promising patents of the month. It hopes to win permission to publish details of dormant patents held by corporations.

In the flurry of new-product activity, there's an occasional complaint of shady practice on the part of an unscrupulous product scout. The only safeguard is to make sure that the broker organization has achieved a name for integrity. ♦



"Call the office—Morton's flipped!"

What the New Labor Law Means to Management

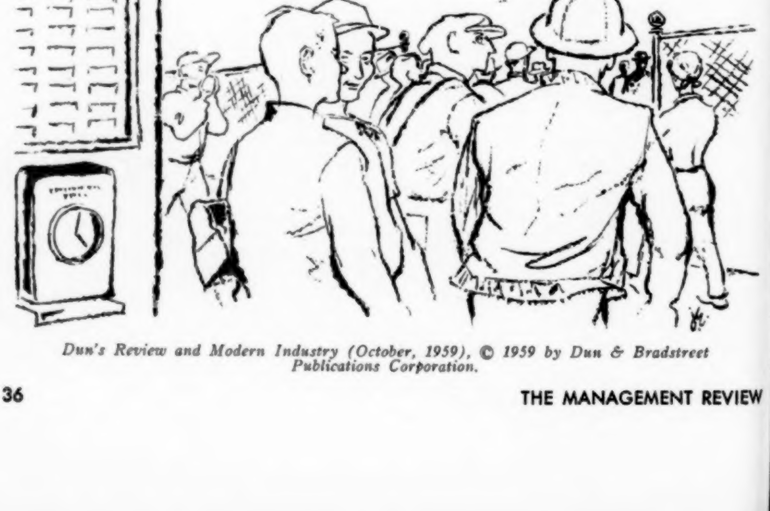
By Theodore W. Kheel

Condensed from Dun's Review and Modern Industry

The Kennedy-Landrum Labor-Management Reporting and Disclosure Act, signed into law by President Eisenhower on September 14th, is the first major piece of national labor legislation in 12 years. How will it affect organized companies, non-union companies, and the unions themselves? What will it mean to management-labor relations?

Employers should not assume that the new labor law is pro-management simply because it places restraints on unions. Actually, companies already unionized will probably not be affected—at least, not directly. Two provisions, though, do give employers additional protection against being organized. One prohibits "blackmail" picketing—picketing to force recognition without an election. This is often used where the union's majority status is in doubt. The other outlaws secondary boycotts, such as the refusal of trucking company drivers to deliver to another firm which a union is trying to organize. But non-union companies have had substantial protection against unionization for the past 12 years, ever since Taft-Hartley empowered managements to compete on equal terms with unions for the allegiance of their employees. Apparently, this protection has been adequate, since statistics show that union membership, in relation to the total work force, is no larger now than it was in 1947.

But neither is it smaller, despite Taft-Hartley provisions enabling em-



ployees to withdraw from unions if they choose. Therefore, the experience of the past 12 years indicates that once a firm is organized, it will stay that way. Nothing in the new law promises to upset this probability.

Small employers already exempt under NLRB rules from the Board's jurisdiction may get the benefit of new state laws hostile to unions. But it's unlikely that the heavily industrialized states, where unions are most active, will grant more aid to employers than federal laws now provide.

The major changes resulting from the new law will be in the internal operation of some unions. Union members now possess a "Bill of Rights;" they are guaranteed the right to nominate candidates, vote in elections, attend meetings, and speak out on any issue. They needn't pay increased dues, fees, or assessments unless they vote, in ways prescribed by the law, to do so. They can sue the union, regardless of limitations contained in the union's constitution. And they're entitled to receive copies of collective bargaining agreements, as well as detailed reports on the union's finances and operations.

The law requires union officials to report any business arrangements they have made with unions or employers. (Employers, too, must report such arrangements, as well as any deals to influence employees' choice of representatives.) The law establishes exact responsibilities for union officers who handle money. It requires officials dealing with more than $5,000 a year to be bonded and prohibits unions from lending more than $2,000 to any officer or employee.

Furthermore, the law requires union elections of officers by secret ballot and within specified intervals. Persons with criminal records are barred from holding union office until five years after their conviction.

The Secretary of Labor is charged with enforcing these rules, and this gives him a new importance in labor affairs: penalties for violations of the law include fines and prison sentences.

The law, however, does contain some provisions favorable to unions. The Taft-Hartley ban on the right of strikers to vote in representation elections is lifted. Also, unions in the construction trades may now make compacts equivalent to closed shop contracts, previously prohibited by Taft-Hartley.

It's difficult at this moment to say just how the new law will affect unions. Many are already complying with its provisions. Union leaders, however, are worried primarily that the law will intensify factional feuding. If it does, the employer's role in collective bargaining may be more difficult than ever.

One great concern of employers who deal with unions is the reluctance of union leadership to take a positive role in negotiations. Too often, out of fear of giving opposition groups within the union a chance to attack them, union leaders serve merely as messenger boys, transmitting offers from management to their membership. No one, of course, wants union dictators, benevolent or otherwise. But neither does anyone want officials who fail to lead because they fear repudiation. The new law may intensify this problem.

Except, then, for non-union and small employers, the new bill's impact on management will, at most, be indirect. Companies that are now organized will continue to deal with unions on the same basis as before. Most of these companies (numbering about 100,000) are troubled with neither organizational disputes nor—except indirectly—internal union procedures, which are the principal subjects of the new legislation. Rather, the problems involve collective bargaining as it has developed during the past two decades. The results of bargaining and contract administration, moreover, affect not only the size of the employer's wage bill but employee productivity as well—deep concerns of practically every company in the country.

These problems of collective bargaining are not solved by the new Kennedy-Landrum law, despite its correction of many abuses. The solution still lies, not in the halls of Congress, but with the companies and unions themselves. ♦

"It's the welcome wagon."

Free service, help in a crisis, dependable inventory, complete lines—these and other extras may constitute your product's edge on its competition . . .

Selling Your Product's "Fringe Benefits"

By Ted Pollock

Condensed from Management Methods

In these days when many competing products are basically alike, it may be your product's "fringe benefits" that will make the difference in your sales. If you already offer such extras as free service and favorable credit terms, make sure your salesmen are pushing them as well as the product itself. If you don't offer these plusses, it's time to develop them.

Here are some of the "fringe benefits" being used by companies today to put themselves out in front competitively:

1. *Easier payments.* All other things being equal, your company's favorable terms, credit policies, or financing assistance could make things unequal—in your favor.

"Rent this power mower for one month," says a gardening supplies dealer. "If you decide to buy, we'll deduct the rental from the purchase price."

A sporting goods salesman suggests: "Stock up on our football helmets now; we'll bill you in 90 days. Meanwhile, cash in on three months' sales without laying out a penny."

A cleanser manufacturer invites institutional customers to deposit a lump sum in advance, to be applied against future purchases. Premium for paper work saved: a 3 per cent discount on all orders.

Are *your* salesmen authorized to offer special billing arrangements, lease or rental plans, trade-ins, or other non-standard terms to the buyer?

2. *Free service.* Help a man save money, increase efficiency, or beef up his profits and your salesman immediately rises high above his "order-taker" competitors.

Salesmen for Shaw-Walker Co., office furniture manufacturers, will send their firm's interior designers to survey a prospect's offices and draw up specific recommendations for improving desk locations and aisle space.

More and more printing houses offer, as part of their service, to write and design brochures, booklets, and letterheads—a real boon for companies that lack advertising departments of their own. Here is a service that speaks louder than price.

Can *your* firm's production, engineering, design, traffic, credit, or advertising departments give your customers any special kind of aid?

3. *Help in a crisis*. The plus that persuades potential customers could be a company's little-known facilities for handling S-O-S situations.

Examples: "At night, phone operator 25." "If we haven't the parts you need, we'll locate someone who does." "We will pay the premium for you if you are incapacitated." "Twenty-four-hour-a-day, seven-day-a-week service."

What emergency problems is *your* firm equipped to handle?

4. *Dependable inventory*. Sometimes simple availability can lower a prospect's resistance.

Crucible Steel Co. of America, for example, boasts 31 strategically located warehouses, each of which can offer in-stock delivery of approximately 16,000 specialty steel items, ranging from tool steels to stainless sheet and wire.

If *your* company maintains an impressively large inventory, are you making the most of that asset?

5. *Packaging*. "Some of our most persuasive presentations focus on the way our products are packaged," reports Morton A. Simon, sales manager of Transogram, Inc., manufacturers of toys and games.

"We offer, for example, a 'mixed pack' of assorted games that permits a retailer to maintain a representative inventory without tying up a lot of capital. He can get six sets of four different games in one 24-unit carton instead of having to invest in four separate 24-unit cartons in order to have all those games in stock. When pointed out to the retailer, it's a potent selling point."

Any package feature that will add to your prospect's convenience or profit may make the difference between an order and a turndown.

For instance, does the package keep the product fresher, cleaner, freer from breakage or spoilage? Has it any novel uses after the product is consumed? Is it stackable, thereby saving shelf or warehouse space? Does its size or weight reduce shipping charges —or make it easier to tote from storeroom to point of sale? Is it eye-stopping? Can the customer see what he's getting? Is there a convincing sales message printed on it?

6. *Complete line*. If your company offers a full line, feature the benefits of buying many products from one central source: dependability, fewer salesmen to see, less paper work, a consolidated bill, perhaps mixed bulk-order discounts.

7. *Guarantees*. "True—our price *is* the same, our product may look like the others, but look at the warranty you get. No charge for *any* replacement parts for a full 12 months." "It's guaranteed—not for 30 days, not for three months, but for two whole years." "If there's any mechanical failure, we'll give you another machine." "Unless you're completely satisfied, we refund your money." "If you don't sell them, we'll exchange them for other merchandise."

8. *Multiple benefits*. Few people can resist a bargain. Show a prospect how he can get extra mileage out of your product and he's an odds-on favorite to buy. For example, a paper bathmat salesman cracked the motel

market when he showed that his product also made a superior desk blotter.

Are there any overlooked uses for —or advantages in—*your* product?

9. *Delivery*. Swift delivery can make a big difference. Lufthansa German Airlines, for example, employs several "supercargoes," men whose sole function is to accompany cargo and attend to all paper work while in the air. Result: no time wasted clearing customs; the cargo gets to its final destination faster.

10. *Sales help*. The Aluminum Co. of America points out to prospects that its year-around promotions—which keep the Alcoa name in the public's mind—not only help to expand old markets for products using Alcoa aluminum, but build new markets as well.

A. G. Spalding & Brothers, manufacturers of sporting goods, will gladly send one of their men to conduct a sales "clinic" for department store personnel. Says District Manager Allen B. Hague: "We operate on the assumption that a good salesman is in partnership with his accounts. If our customer's salesmen, who face the ultimate consumer, are unfamiliar with our merchandise, we all suffer. But if they can explain with authority just why one baseball glove is worth $5 more than another, we all profit."

11. *Corporate policies*. "We accept no direct sales from your customers—we sell only through authorized distributors and dealers like yourself." That sentence has unlocked many a door for the sales staff of one appliance manufacturer.

A representative for a non-ferrous metals firm has found a convincing clincher in his company's reputation for allocating scarce materials equally to all customers.

"We actually field-check your retailers before advising you what to stock," salesmen for a hardware manufacturer tell potential distributor customers.

Which of *your* company policies work to the customer's particular advantage? ♦

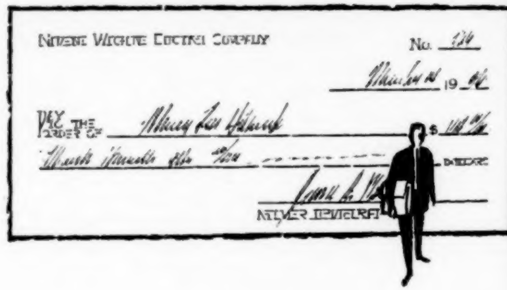
What the Steel Strike Did to Profits

THIS YEAR'S THIRD QUARTER PROFITS were higher than last year's—but not by much. The net income of 785 major corporations in the July-September period of 1959 was $10,786,000 higher than in the corresponding quarter in 1958, according to a National City Bank study. This is a small gain—less than 1 per cent of the 1958 third quarter figure of $2,558,122,000.

At the same time, the 1959 third quarter net—totaling $2,568,908,000 —is actually $1,027,123,000 less than this year's second quarter total of $3,596,031,000. The second-to-third quarter dip is due partly to the steel and other strikes.

More encouraging, however, is comparison of net profits for the first nine months of this year with net profits for the same period of 1958: a total gain of 36 per cent.

—Elmer Roessner in *Business Today* 11/13/59



Writing the Executive Paycheck

Condensed from Acme Reporter

NOT LONG AGO, a medium-sized company was trying to pry loose an unusaily talented executive who was firmly and happily lodged in a competing organization. Early in the negotiations they mentioned the salary they were considering—$35,000. The object of their attentions wrote back at once, saying, "Since I am now making $38,000 it hardly seems worth your while to pursue the matter further. But if you wish, I shall be glad to come and talk with you."

Should the company try to beat that price? How much more would it have to offer to make the difference mean anything? If it promoted one of its people instead, should that man be protected from other companies' raiding by having a comparably high salary? And so on.

The rate of pay of its executives continues to be one of the stickier problems with which a company must deal. Externally, an organization that is not lined up with its competitors on compensation—at least roughly—is highly vulnerable. Internally, stresses and strains develop and persist over the relative size of paychecks. Underpaying and overpaying are twin hobgoblins: if a company is rewarding men beyond their just deserts, their colleagues are inevitably going to know it and be resentful; if a large group of high-powered managers are not being recognized financially, they are almost certain to be irritated and restless.

The process of policy-making in executive compensation can be divided into three segments: setting the pattern, establishing the salary structure (determining the differentiation between grades, and progression with grades), and attaching actual price

Acme Reporter (1959 Series—Number 3), The Association of Consulting Management Engineers, Inc.

tags to people and jobs. The issue of incentive pay can be dealt with separately, after the base pay has been firmed up.

The most complex approach to establishing a workable pattern for executive compensation, but the most realistic, is the evaluation and rating of management jobs in terms of their contribution to the success of the company. Many techniques are used to make this evaluation. Generally speaking, companies seem to turn to a point system, a factor system, or a combination or modification of the two. In analyzing management jobs, they look at such elements as creativity required, initiative demanded, degree of responsibility for policy-making, accountability, amount of planning involved, and so on. They then assign an established number of points for each of the job characteristics in order of their importance, and thus rate the offices in relation to each other. Alternatively, they may measure one job against another within a few (three to five) broad categories of factors—like "know-how," "responsibilities," and "relationships."

Having established the hierarchy of management posts, or set the pattern, it is possible to move on to a consideration of the salary structure itself. Most salary plans are constructed with two building blocks—grades, and steps within grades. Grades represent clusters of jobs that stand on the same rung of the management ladder. Steps represent degrees of proficiency in performing these jobs. Plotted on a chart, salary structure approximates the appearance of organ pipes, each pipe being a grade. While the jump from grade to grade may be only 8 to 12 per cent, the spread between the lowest and highest steps of proficiency within grades (the length of the organ pipe, in other words) may run as high as 70 per cent, although 35 to 50 per cent is more typical. As a general rule, the fewer the grades, the easier the salary structure is to administer. Also, the more the capacity of the man determines the significance of the job, the broader the spread of steps within grades ought to be.

The third step in the process is pinning on the dollar sign. Survey data can be very helpful at this stage of the program by guiding a company in determining the salary of the top executive himself as a peg on which compensation of other managers can be hung. It is often possible to chart the ratio between the chief executive's salary and those of his second, third, and even fourth man, according to the same industry figures used to set the range for the top man himself. (Of course, it is risky to go by titles in determining who is second, third, or fourth in importance; the place to look for this kind of rating is in the job evaluations.)

In this way, the salaries of the chief executive and his key associates serve as the jumping-off place for the determination of salary scales down through the various levels of the management group.

Regardless of the specific system a firm uses to establish a rational scheme for setting its managers' remuneration, the end result should meet several tests. It should:

• Be understood and considered fundamentally fair by those who are subject to it.

• Be based on explainable and sensible comparisons between different functions (not titles).

• Be carefully tailored to the particular company.

• Set pay scales competitive with other firms in the field.

Once the basic salary policy and guide has been firmed up, the issue of incentive pay demands consideration. Incentive bonuses are not a necessity. They are widely used in some industries, but not in others. Sometimes the characteristics of the management or the nature of the firm's operations makes bonuses either inappropriate or impractical. But more and more companies are using incentives for their management personnel—particularly the more profitable companies.

Here the question of taxes comes in, because it takes a large bonus before a high-salary man can feel the incentive effect of the little that remains after taxes. If 20 to 30 per cent of salary is a big enough bonus to galvanize middle management people, top management people should have the chance to get 40 to 60 per cent of salary for outstanding performance in a year in which the company makes a good profit.

Stock option plans, deferred compensation, and a host of other devices have been developed over recent years to serve as means for whetting the appetite of top managers and replacing the unlimited ceilings open to businessmen before the graduated income tax. Some of these are subject to vigorous debate among experienced executives, especially in terms of their usefulness. But here again are some principles worth noting:

1. A plan—like pension programs or deferred compensation—that serves as an incentive to the man on the edge of retirement may not be as much of a driving force to his junior associate, who may appreciate a large bonus check more.

2. Some schemes that look fine on paper—like stock option programs—may not work out satisfactorily because they haven't been thought through properly. It's nice to be told you have the right to buy stock, but if you haven't the cash resources and no alternative methods are established, it isn't a very tangible benefit.

3. Added payments may lose their effectiveness if they are excuses for keeping base salaries low.

4. Making blanket payments to groups may be the easiest way to handle incentive remuneration, but it may not mean as much in stimulating added productivity.

5. At any level in the company, money should not be counted on as the only or the best way of establishing a climate within which people will strive toward excellence of performance.

No executive compensation pattern, however carefully worked out, can be tied up and sealed like a Christmas package. It must be adjusted and corrected constantly to clean up the errors and injustices that are inevitable and to keep it up to date with the changes of personnel and company mission that are bound to occur. Nor can any plan ever provide a mechanical, automatic substitute for judgment. The most it can do is clarify, organize, make explicit, and, above all, make consistent the implementation of that judgment. ♦

"I believe in making money"

By Alan Harrington

Condensed from
Life in the Crystal Palace

WE MUST BELIEVE in the worthwhileness of a job or suffer stress, or lapse into an amiable or sullen not-caring. Most business enterprises have to take into account the problem of belief where middle-level employees are concerned. At lower levels where subsistence is the main worry "belief in your job" couldn't matter less. It would be fantastic for a restaurant dishwasher to "believe" in his work. Important though his labor may be in terms of public health, the dishwasher who has a chance will escape to a higher skill.

But the higher we rise in skill and salary the more closely we look at the meaning and importance of what we do for a living. I think the need for us to believe in *something* in relation to our jobs can't be overestimated. . . . Imagine a company, created by the whim of a rich man's will, whose sole function was to dig holes in the ground and fill them up again, and then smooth over the scarred earth so that not a trace of the ridiculous operation would remain. How many self-respecting employees would

stay with such a firm over a long period? I don't know, but I would guess, for example, that the bulldozer operator—no matter how well paid—would eventually quit such an assignment for a simple reason: it insults him as a human being.

Among salaried people, what beliefs are possible? We may, I think, believe in: (1) A product. (2) Making money. (3) Getting ahead. (4) Being a "pro." (5) Sheer process. (6) The company itself.

I believe in our product. The highest and most satisfying form of commercial belief is the conviction that the product I am working for is essential, or at least helpful, to mankind. If I can't have that, I should be able to assume, at any rate, that our product is the best of its kind on the market. Lacking that, let me have faith that it is not positively the worst of its kind. Take even that away, and please assure me that it is not poisonous. Without such assurance, I will have to justify my job in another way. . . .

However mightily indoctrination teams labor to convince employees of the importance of trivial products, the fact is that we could easily get along without them. Hence, anyone devoting his life to the promotion of these items comes—in terms of a philosophical accounting for himself—bang up against a double absurdity. Should he really manage to believe that his brand offers any great and lasting benefits to people, or even that his brand is markedly superior to all competitive brands (which may contain virtually the same ingredients), he takes a foolish position. But equally, if he does *not* believe in the product he is pushing, his entire working day from morning to night becomes an unrelieved exercise in dishonesty. . . .

I believe in making money. Money is the coin of manhood. It is the skin of the dangerous leopard, the bacon from the wily pig that I bring home because I am strong and know my way around our forest. If you haven't made much money, according to the reasoning of our tribe, it means that you haven't figured out the forest very well. You don't know a bear from a boar, and throw your spear at the wrong game. Deep inside of you, perhaps, you don't care for the hunt.

Why should I not believe in money? The possession of money makes men more masculine and women more feminine. Cash enlarges the soul. When I have money I am a much nicer person, tolerant, kind and understanding, and I forgive the sins of others. I give to charity and feel better. Without money I become mean-spirited, pinched and envious.

Yet a belief in making money, by itself, for some reason has little spiritual appeal. It won't do for me, partly because I suspect that I will never pile up a great amount. If money is the top and I believe in it, then I will be inferior to too many people. . . . No, money in itself will not do as an object of belief. . . .

I believe in getting ahead. More and more, commercial status is becoming a substitute for money. Status —that is to say, what others think I am—is not taxable.

I want the world to smile at me and say: "There's a man who's getting ahead." Never mind what I am getting ahead *at.* That is unimportant. All you have to do is look into my

garage and see how many cars you find there. Come see us at your earliest opportunity, but hurry because we are moving to a new home in a slightly better neighborhood. We sort of outgrew our old place after my last promotion. What am I looking forward to? Just this: on my gravestone may it be written, "He Got Ahead."

No, it is wrong and far too easy to mock this sort of thing. Of all absurdities, I think, the simple, trusting faith in status and "aheadness" as an absolute value represents the most pathetic misunderstanding of what life is about.

There is a form of mental illness in which the patient suffers from a touch syndrome. Wherever he goes, from room to room and place to place, he is compelled to touch things, hold things in his hand, and continually jangle, twirl, weigh and measure inanimate objects in order to relate to his surroundings. Thus it is with the family whose religion is "getting ahead." They must always have props in order to prove where they are. They must measure their progress by the size and cost of the facilities they can buy. The administrative functionary graduates from a brown leather couch to a red leather couch in his office. . . . Clearly, I think, there is no belief for us along this road.

I believe in being a pro. A pro, said Humphrey Bogart, is someone who does his job well whether he feels like it or not. He is always a valuable person. We need his skill, and will pay for it. Give him the job at hand, and relax.

The solid professional is a credit to the human race. How pleasing to watch him in action! The benevolent, grandfatherly face of the locomotive engineer looking down on the passengers as they hurry past his black cabin at the end of a run; the 78th violinist, lost in the big orchestra, bowing, a lock of hair swaying across his forehead, his alert black eyes on the conductor; the engineer, thumbs hooked around his belt, squinting at the blueprint I can't read—all pros! Wonderful people! No wonder we aspire to these skills. They give a man dignity.

Professionalism also affords us the best excuse in the world for not believing in anything but craftsmanship. In the absence of a genuine philosophical goal, the satisfaction of functioning as a respected pro is next best. In some professional circles, moreover, it is considered naive and boyscoutish to have a philosophical orientation, or to believe in anything. . . .

The pure pro may avoid absurdity by retreating into his own skill and refusing to venture beyond its borders. In his own sphere he remains morally clean. But in addressing himself solely to technical matters he has in effect abdicated his moral sovereignty over the events taking place around him. . . .

I believe in sheer process. This is akin to being a pro, but slightly different. The professional takes refuge in his craft; the efficiency man reverses an old maxim and declares that the means justify the end. For him ends hardly matter at all. At press conferences he has more than once told respectful newsmen: "I believe in production." He may be speaking of rabbits, soft drinks, or automobiles. It doesn't matter. Long ago he decided that process is an end in itself. In

his last oxygen tent he will cry, "Production, more Production!"

I think that those who believe in process are driven by a peculiar aesthetic sense. They delight in symmetry and system, the dovetailing of parts, and the blending of work flows throughout an organization. I have seen a man go into a sort of ecstasy over a new filing and communications system. . . . The dedicated production man loses himself in the fascinating mathematics of delivering goods efficiently from the factory to us. This is a fine occupation, but once he begins to *credo* in logistics and throw his being into it, he can turn, spiritually, into a man in an attic playing endlessly with toy trains. It is easy for him to lose all interest in other people, except insofar as they are effective instruments in his game. The true believer in process generally becomes unpopular and lonely, one of those sniff-nosed efficiency types whom everybody fears and abhors.

More than a quarter-century ago José Ortega y Gasset wrote in *The Revolt of the Masses,* "Human life, by its very nature, has to be dedicated to something, an enterprise glorious or humble, a destiny illustrious or trivial. . . . In these years we are witnessing the gigantic spectacle of innumerable human lives wandering about lost in their own labyrinths, through not having anything to which to give themselves."

If I am one of these innumerable wanderers in the world of business, is there not something for me to believe in? May there be one more possible *credo* for me? I think so.

I believe in our company . . . If I am lost in the split-level values of modern business, the High Corporation will serve as my High Church. . . . Like the church, our company is good and wise. In the context of business enterprise, it is the inheritor and vessel of a mighty tradition. Our company has achieved high ethics and kindness, and cares for me, and will see me through to 65, and send me checks after that. . . .

The editors have asked with mild astonishment whether the writer has never discovered men who enjoyed their work in business and at the same time found high philosophical justification in what they were doing. I have indeed known many such men. It would be foolish to suppose that the economy of the United States was built by nothing more than a succession of productive absurdities.

Let us admit first of all that the feeling of absurdity can always be defeated by joy in action. Anyone who swings a hammer and drives in a nail has, at that moment of impact, every reason to be happy. When he has pounded in all those nails and his product is completed, he may honestly enjoy a sensation of pride, even though he has built no more than a birdhouse.

I think that the philosophically justified man is the one who conquers nature or imposes a helpful order on it. He has no need to apologize to anyone, least of all to himself. Happy is the builder. An edifice, whether in the form of a bridge or a building or an idea, is the solid architecture of faith in our ability to conquer all worlds . . . and there is probably nothing absurd about that. ♦

There's no way to determine exactly when consumer debt reaches excessive proportions, but some fear that this point is being approached . . .

Should CREDIT Be Curbed?

Condensed from Financial World

DURING the six months ended August 31, consumer credit outstanding increased by nearly $4 billion; of this rise, installment credit accounted for some $3.3 billion. Debt in these two categories now stands at all-time peaks of $47.9 billion and $37 billion, respectively, and from May through August, new extensions of installment credit amounted to around $4 billion monthly. Do these enormous figures justify a renewal of restraints on consumer credit?

From time to time during the postwar period, the mushrooming growth of borrowing by individuals has been criticized as inflationary and unstabilizing. On two occasions —in 1948-49 and 1950-52—the government found it necessary to revive the wartime Regulation W, which prescribed minimum downpayments and maximum repayment periods. At several other times, it was suggested that stand-by authority be vested in the Federal Reserve Board to re-impose such restrictions if it considered them necessary.

In recent months, the burgeoning consumer debt has revived sentiment favoring restrictive action. Rising interest rates, although eventually effective in moderating other types of credit demands, have never been able to put much of a dent in consumer credit. The average person is little concerned with the amount of interest he is paying—he often does not even know what rate he is being charged—but is primarily interested in the down payment and the monthly cost thereafter.

Consumer credit has assumed an increasingly important position in the economy. At the end of 1957, the total outstanding consumer debt amounted to 175 per cent of an average month's disposable income, against 93 per cent in 1929, 120 per cent in 1941, and only 149 per cent as recently as 1953. For installment credit alone, the comparisons were 133 per

Financial World (October 21, 1959),

cent against 45.4 per cent, 84 per cent, and 110 per cent respectively; for monthly repayments of installment debt, 13.1 per cent against 6.4 per cent, 9.5 per cent, and 11.1 per cent.

Obviously, there can be no foolproof way of determining precisely when consumer debt has reached excessive proportions. But the comparisons above have led some people to fear that this point is at least being approached. Their concern has been increased by the recent growth of various credit plans never before used on such a wide scale: open lines of credit by banks, deferred charge accounts, credit cards, even vacations on the cuff.

However, there are reasons for doubting that consumer credit is being so abused as to constitute a menace. Part of its growth is explained by the fact that during most of the postwar period consumer durables have accounted for a somewhat higher proportion of the individual's spending dollar than previously. Perhaps even more important is the fact that the growth and redistribution of income over the past several decades have made credit available to millions of people who had never before been eligible for it.

Moreover, consumer credit and installment credit now outstanding, together with the recent level of new extensions of installment credit, are slightly below 1957 levels. And credit extensions are not appreciably higher, relative to retail sales of durable goods, than they were as long ago as 1940. In one category—personal loans—they do amount to more, but this is offset by relative declines in use of automobile and "other consumer goods" credit; the shifts between these two categories merely reflect changes in sources of credit, rather than any tendency to rely more heavily on the use of borrowed money in purchasing consumer durables.

There is one more strong argument against legislative restrictions on personal debt. During World War II, and again in 1950-52, such restrictions were fairly effective. These, however, were both periods in which there was strict curtailment of the production of automobiles and other goods for whose purchase credit is generally sought.

In 1948-49, when this factor was absent, growth of consumer credit outstanding did not slow down appreciably. It is true that there was a huge war-deferred demand for durable goods at the time—a condition which no longer prevails—and perhaps stricter controls than were actually in force would have led to a different result. But the record as it actually exists furnishes little support for the idea that renewal of Regulation W would solve the problems of actual or potential abuse of consumer credit.

The question promises to remain a live one for many years to come. Over the next decade, there will be a disproportionate growth in the young adult age groups which, because their many needs outdistance their early earning power, are the largest users of credit. But if average incomes continue to rise, a continued increase in consumer debt need be no cause for undue concern. ♦

MEETING THE CHALLENGE OF FOREIGN IMPORTS

By Charles A. Cerami

Condensed from Think

THERE'S a minor civil war under way in the U.S. Imported goods are pouring into this country from across two oceans, welcomed and encouraged by some businessmen, bitterly opposed by others.

Manufacturers have often disliked imports, because of resulting stiffer competition. So they besiege Washington—through their lobbyists and representatives in Congress—to urge tariffs, quotas, or any restrictive device that handicaps the incoming goods. Merchants, on the other hand, like imports: wholesalers and retailers all over the country report added business that wouldn't have been possible without the new interest and glamor that foreign products create.

The inflow is going on at a rate never seen before. It was already at a record level a year ago; in recent months it has risen even higher, by 20 per cent.

But more revealing than figures is a simple walk through any department store—even those in the smaller towns. Counter after counter is filled with foreign goods: copper chafing dishes from Italy, stainless steel flatware from Holland, saltcellars from Sweden or Austria, tiny transistor radios from Japan (selling for less than the U.S.-made ones), portable typewriters from Switzerland and Italy (as many as from this country), sewing machines and cameras from Germany and Japan, and silk fabrics, finished clothing, and neckties from Hong Kong, Japan, and Italy.

Eighty per cent of the fancy foods on supermarket shelves are foreign made. A grocer considers his place well-stocked nowadays only if he carries hams from Denmark, Holland, and even Poland, preserves and cookies from England, truffles from France, beer from West Germany, Mexico, and Israel

Across the U.S., one city after another is holding a world trade fair, where increasing numbers of foreign companies display their wares. Seeing these exhibits, many U.S. producers shudder with apprehension. They find even more foreign autos—including several new makes from Japan. They see portable refrigerators, new types of dehydrated foods, lower-priced washing machines, and television sets and other home appliances about to be imported. And most are displayed with packaging and merchandising skill that seems equal and sometimes superior to our own.

Facing such an onslaught, it's no wonder that brother may be pitted against brother—if one is a manufacturer and the other an importer. Even the U.S. Chamber of Commerce, traditionally in favor of freer trade, had to tone down its platform in order to avoid an open split among delegates.

Here's an example of how two branches of the same industry may react quite differently to the import trend:

Many shoe stores are delighted with Italian-made styles. "People come in and buy shoes even when they're entirely different styles," a retailer says.

At the same time, the board chairman of a New England shoe manufacturing company moans: "Sure, all this free trade may be great for international relations and even for some of our retail stores. But how do I explain that to several hundred of my employees who were waiting for a midyear bonus and got termination notices instead?"

The trend toward internationalizing our taste in goods is not just a temporary one. More and more U.S. stores have permanent buying staffs based in Europe. Even the small merchandiser in a midwestern or southern town tells his purchasing representative in New York to keep in touch with foreign sources and let him know of new offerings from abroad.

What is causing this product revolution?

In a sense, it's a return to normal. Foreign makers always could undersell Americans on many items because of the lower wages they pay. But this had been forgotten for a quarter-century because World War II took most of our competitors out of the market place. As we helped them rebuild in postwar years, they added more modern machinery; now their traditional wage advantage is reinforced by more efficient methods.

We wanted to show the world that capitalism still works—that our system could restore broken economies faster than communism could. We *have* proved it. Our wartime allies are back in blooming health, and they are crowding us more than many Americans like.

For a good number of U.S. companies, the answer has seemed to lie in the approach: "If you can't lick 'em, join 'em." There has been a sudden turn toward joint ventures abroad. U.S. firms go into partnership with foreign firms, putting up money, patents, or know-how to turn out products abroad that can be sold more cheaply back here.

Other Americans have gone into foreign manufacturing ventures on

their own, establishing branch plants to produce some of their items overseas at lower cost. And a small number have taken the drastic step of closing down their U.S. manufacturing operations and relying entirely on production overseas.

Now that U.S. business is alert to the challenge, competitive adjustments are being planned behind the doors of top-level conference rooms. Here are some of the changes that consumers will be noticing soon:

1. Many U.S. manufacturers are adding cheaper second lines—products that frankly give the customer a little less, but at a lower price.

The smaller cars are one example. U.S. factories aren't trying to turn out competitors for the tiny Fiats and Volkswagens. Some auto executives say Detroit couldn't even produce the *parts* for what it costs some European makers to land a finished car here. But the major U.S. auto companies now offer an intermediate size, a car with less space and fewer extras than today's $3,000-to-$6,000 vehicles, yet one that is more solid and perhaps better crafted than some of the tiny European cars.

Other industries are following the same trend: Makers of chinaware, surgical appliances, musical instruments, and sporting goods are readying cheaper lines—not in place of their best wares, but as alternate offerings.

2. More companies are eliminating frills from some of their products without downgrading basic quality.

This is especially true of industrial equipment, often over-adorned. One U.S. firm specializing in industrial laundry equipment was shocked when a German company underbid it drastically on Latin American business that it had always captured before. The German product was just as serviceable, but far less beautiful. "That taught us a lesson," says the American company's chief executive. "From now on, our goods will be every bit as durable—but without so many trimmings."

3. Some firms here are adding prestige lines to meet the "snob appeal" that has helped to put many imports across.

A few makers of housewares, faced with the impossibility of meeting some of the low foreign prices they have to compete with, are trying instead to produce household goods so distinctive and so well made that price comparisons just won't enter the picture.

The sum total of all these moves will mean more kinds of goods on the market—more foreign and more "made in USA." The horizon of the buying public is being broadened by the introduction of more and more new products. The average supermarket, for example, had 3,500 kinds of products in stock a few years ago; today, it keeps 4,000 to 6,000 to satisfy customer requests.

Looking ahead further, we can guess that the 1960's will bring more emphasis on market surveys. Since no company can keep expanding product lines to include the almost limitless variety of new items, the ability to spot exactly what buyers want is becoming one of the most prized specialties in the business world.

There's another reason for the growing interest in consumer psy-

chology: Most economists are predicting that "discretionary income" will grow steadily. U.S. families will have more money left after paying for rent, food, clothes, and other essentials. This "surplus" money is the most fickle of all purchasing power. It also represents the portion of the U.S. dollar that foreign businessmen are getting a bigger share of. So the task of attracting the discretionary income of the American citizen will raise the advertising profession to greater importance than ever.

Will U.S. business learn to live with foreign competition? Industrialists are divided on the question. Some are guardedly optimistic, while others see unemployment and loss of business leadership ahead for America. But most of the top men in government and finance—trying to look objectively at the whole picture—see a bright outlook. Many predict that a stronger U.S. will be created by the new stresses. Analysts of international business say we must go super-modern—with automation and electronics giving us such productive efficiency that even our wage disadvantage will be overcome.

Whether this is possible or not, the next two or three years will be a period of change and challenge for many companies—and a happy time for buyers with money to spend. ♦

Clerical Pay Envelopes Get Fatter

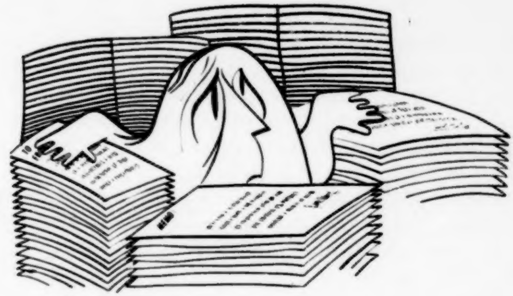
OFFICE WORKERS' SALARIES have gone up an average of 84.2 per cent since 1947, as against a gain of 71.2 per cent for production and allied workers. These figures were revealed by the latest office salary survey of the National Office Management Association.

According to the survey, the average office salary—based on 481,363 office workers in 6,762 companies—is $70, representing an increase of 9.4 per cent just in the past 18 months. Senior secretaries today get an average salary of $89, with junior secretaries receiving about $10 less. An even higher national average is found in the pay envelopes of senior accounting clerks—$93, up 7 per cent since 1957. The highest average of any group in any individual city covered by the NOMA survey is the $143 reported for four tabulating machine operators in Lake Charles, La.

The NOMA survey points up the large city-to-city variations in clerical pay levels. San Francisco, for instance, pays less than across-the-bay Oakland in 20 of the 23 job classifications covered; for one job, the difference between the weekly averages is $14.

Over 60 per cent of the companies surveyed now give more than six paid holidays a year to their office employees. Most companies in the survey pay overtime after 40 hours, but at least half of those with regular work weeks under 40 hours do not start paying overtime until after the 40-hour mark.

—*Business Week* 8/8/59



Bouquets AND BRICKBATS IN THE COMPANY MAILBAG

By Peter Landau

Condensed from Newsweek

OUT OF the business mailbag they pour, letters from customers and cranks, from the curious and helpful. The time was when such letters were ignored, but now few go unanswered. It's not merely a matter of manners. It's good business.

No one knows exactly how many letters flow through business's mailrooms each year, but some estimates are in the billions. And it all costs money—anywhere from 80 cents to $10 a reply, depending on the salary of the person who writes it and the research required. To facilitate replies, the Mutual Life Insurance Co. of New York uses a series of manuals with some 2,000 answers to questions likely to be asked. Many companies have established whole departments just to answer letters, and several firms seek advice from outside consultants on how to handle the daily flood of mail.

Whatever the cost, businessmen say it's worth it. A courteous answer often turns a disenchanted customer into a rabid partisan. Illinois Bell Telephone president William V. Kahler cites another reason: "Letters mirror our weak spots. This gives us clues as to how we can avoid making similar mistakes and manage our business better."

Delta Air Lines has altered almost every major segment of its service in some way "because of passenger reaction," says customer-service director T. P. Delafield. One example: A passenger complained that he had to carry his own bags from an international flight to a connection with a domestic run at Miami airport. Delta persuaded the international lines to check luggage through to final destinations whenever possible.

Most letters don't result in changes. In New York, for instance,

Metropolitan Life Insurance Co. did not take action on requests to include an addressed return envelope with its bills, because so many policyholders pay their bills in person at branch offices. But companies nevertheless handle suggestions with care —particularly those that submit new ideas or products. General Electric, for example, immediately sends such writers a release form and a booklet explaining their rights. Only after the release is received will GE investigate the suggestions. Even then, the company says, there is little chance that any idea will be accepted: few laymen are likely to outthink GE's 23,000 scientists and engineers in their search for new ideas and projects.

Many companies try to get their replies into the mail within two or three business days. Pepsi-Cola Co., for example, has what it calls a "rubber-band philosophy." It tries to "snap out" answers in 24 hours. "Anyone who thinks enough of us to write shouldn't have to sit and wait for an answer," says Pepsi president Herbert L. Barnet.

Most people write letters to companies to get something off their chests. "There are more complaints than smiles in our letters," says W. T. Anderson of Montgomery Ward's customer-service department. Ward's even gets mail from one man who complains *before* he makes a purchase. "If this doesn't come up to expectations," he writes, "I'm going to return it."

But all the mail isn't negative. Complimentary letters about service are received and are often passed on to specific employees who inspired them. When Rich's department store in Atlanta gets a fan letter about some employee, the worker is notified of the compliment and invited to lunch in the company tea room "to dramatize the fact that we appreciate this spirit of service."

Regardless of the action eventually taken on them, certain letters become company treasures. One to Sears, Roebuck in Dallas requested: "Please have Mrs. Sears pick out the diapers for the baby, as I believe she would know more about them than Mr. Sears." ♦

U.S. Corporations: 12½ Million Owners

ONE ADULT OUT OF EIGHT is now a shareowner. Early this year, America's stockholder population stood at 12,490,000 individuals, compared with an estimated 8,630,000 in 1956 and 6,490,000 in 1952. The latest figure is contained in a shareholder "census" conducted by the New York Stock Exchange. Keith Funston, president of the Exchange, noting that more than 1 million people a year were becoming stockholders, commented that the present total was not anticipated before 1965.

The breakdown of investors given by the new census shows, among other things, that the average shareowner has a household income of $7,000, compared with $6,200 in 1956, and that housewives—4 million strong—now constitute the largest single group of stockholders.

—*The New York Times* 6/17/59

PRETESTING an AD's PULLING POWER

Condensed from News Front

SCIENTIFIC METHODS now are being used to predict whether or not a proposed advertisement will appeal to the audience at which it is aimed.

With U.S. business spending more than $10 billion on advertising, it no longer can afford to depend on hit-or-miss pretesting methods. Fortunately, more accurate techniques have recently been developed for predicting consumer reaction before millions of dollars are spent on finished art, production, and space.

The most interesting of the new methods uses the tachistoscope, a portable "flash exposure" projector, developed into an advertising research tool and renamed the T-meter by Seymour Smith Associates, a marketing and opinion research firm.

A researcher shows a proposed version of an ad (testing usually involves alternate versions) to a sample of potential customers. He first measures its attraction value by flashing it for a fraction of a second, the time usually given a single page in leafing through a magazine. Respondents are then asked just what things in the ad registered with them —the name of the product, the headline, etc.

After a second and longer exposure, which simulates normal ad reading time (3-50 seconds, depending on how complicated it is), the researcher measures the ad's reading interest, conviction, and communication by asking respondents what they learned from it.

Analysis of how well individual elements were remembered shows up the ad's weak spots. Was the copy message clear, the art work pertinent, the headline catchy? Tests on an ad for two-way radios, for example, revealed that although the illustration was an eye catcher it had so little connection with the product that many respondents thought the ad dealt with outdoor lighting fixtures. Tests on a revised ad with a less dramatic illustration showed some loss of stopping power, but a greater degree of communication.

Pretesting can measure many things. What to say—should you pussy-foot about the laxative quality of prunes and surround them with an aura of glamor? How to say it—is a small girl a better pitchman for an easy-to-use cake mix than a home economist? Does the ad change consumer attitude? Is it easily read? To

get the answers to such questions, says Donald Longman, research director at J. Walter Thompson, a test should vary one element of the ad at a time and keep all the others constant.

T-meter tests of both package designs and ads have shown that even lettering has emotional impact and can be associated with specific corporate images. Old gothic might personify an aged Scotch, while a bold, modern type face suits heavy industry.

U.S. Steel researchers learned that the word "productivity," although seemingly inoffensive, was arousing hostility because to many people it meant "exploitation of the worker." It was changed to "rate of production."

Morton Smith, of the Smith-Greenland agency, realized while testing different themes for a non-fat dry milk that the original theme of economy was embarrassing women who were buying it to reduce, not to save money. Once the appeal was switched to a diet theme and the economy element buried in the copy, sales increased twelve fold.

Advertising agencies use a variety of techniques to evaluate proposed campaigns: direct mail coupons, jury panels, depth interviews, split circulation runs, and advance circulation of magazines containing the ad being tested.

J. Walter Thompson has devised some pretesting techniques that are simple and inexpensive. In selecting male models for a perfume ad, they showed photographs of two potential models to women in offices and supermarket parking lots. The expressed preferences guided the eventual choice of model.

To pretest copy themes in a simulated buying situation, the agency often makes recordings of two alternate approaches—brand A white bread is fresh, brand B high in protein—and then plays them over the telephone, asking respondents which brand they want as a gift.

Industrial advertisers have special headaches. A recent T-meter test of 18 industrial ads in *Fortune* magazine indicated, according to Edgar Gunther, the magazine's research director, that many failed to communicate a message and most did not even display the company logotype prominently enough.

Last fall, the data-processing division of IBM initiated an extensive research program to analyze the results of its advertising efforts. Measuring their ads is complex, since a customer does not buy a machine as the result of one specific ad. Instead, the ad creates an atmosphere for the salesman's visit. By sampling executives on the effect of IBM ads, says Murry Harris, in charge of advertising research for data processing, IBM is learning valuable lessons on clarity of approach, style, and layout. ♦

THERE IS NO HARM in being sometimes wrong—especially if one is promptly found out.

—John Maynard Keynes

BRIEF SUMMARIES
of other timely articles

GENERAL

1,700 TOP EXECUTIVES. *Fortune* (9 Rockefeller Plaza, New York 20, N.Y.), November, 1959. $1.25. The "typical" boss of a major U.S. business enterprise is about 58 years old, assumed his present job at about 50, has been with his company for some 27 years, earns $73,000, and works over 52 hours a week. These are some of the details of the composite picture of the American boss that emerged from a *Fortune* study of 1,700 chairmen, presidents, vice presidents, and other executives at the summit of American business. In addition to the results of the survey, the article contains portraits of the representative bosses of firms in 11 individual industries.

U.S. BUSINESS IN CANADIAN GARB. *Business Week* (330 West 42 Street, New York 36, N.Y.), August 8, 1959. 50 cents. Growing nationalism and anti-U.S. feeling in Canada are changing the tactics of U.S. firms with Canadian subsidiaries, reports this article. These Canadian feelings stem from fear of U.S. business power in Canada, from application of restrictive U.S. trade policies to U.S. subsidiaries there, and from resentment of the "U.S. backyard" attitude. Remedial steps being taken by U.S. firms affect their Canadian product styling, promotion, and names (Ford's new "Frontenac"), as well as management and organization in their Canadian subsidiaries.

INFLATION—VERDICT OF THE MARKET PLACE. By Robert S. Schultz, 3rd. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1959. Reprints $1.00. The inflation that has plagued the United States since the end of World War II has been variously ascribed to excessive wage rates extorted by monopolistic unions, the monopoly powers of big business, and irresponsibility on the part of *both* big business and big labor, but in reality neither business nor labor is responsible for the inflation, which is caused, the author maintains, by the plain old-fashioned law of supply and demand. In this article, he calls upon labor and management to accept the result of market forces if price or wage excesses should restrict demand and cause unemployment, rather than running to the government to plead for subsidies, tariff protection, deficit financing, or any other device that will make the excesses a permanent fixture of the economy.

AUTOMATION: ITS IMPACT ON BUSINESS AND LABOR. By John Diebold. (The National Planning Association, 1606 New Hampshire Avenue, N.W., Washington 9, D.C.) $1.00. Providing a concrete outline for exploring the social and economic problems posed by increasing automation, the author discusses in this 64-page pamphlet such aspects of automation as the retraining of workers for higher skills; reassessing high school programs to effect increased understanding of mathematical and logical methods; job displacement; and the favorable and unfavorable effects of increased leisure. The preface, a statement by the NPA Committee on Automation, points up the critical need for a detailed study of automation to aid in making national policy decisions on its effects.

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THE 1960 SITE SELECTION HANDBOOK AND PLANT LOCATION GUIDE. *Industrial Development* (2592 Apple Valley Road, North Atlanta 19, Ga.), October, 1959. $3.00. This comprehensive presentation of site selection factors should be a useful guide for the company that wants to do the kind of thorough, systematic job of choosing a plant site that will avoid costly or irreparable mistakes. This year, the summary of location factors and methods of investigating them has been regrouped to fit more closely the actual study sequence a company would follow. In addition, more than 9,000 industrial development organizations are listed.

CREATING A WORLD ENTERPRISE. By Gilbert H. Clee and Alfred di Scipio. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November-December, 1959. Reprints $1.00. A recent survey shows that over 30 per cent of U.S. companies with foreign operations derived a rate of return from them more than twice as large as the rate of return on their investments within the U.S. The authors discuss the complex requirements for success in world competition, including organization structure, area management, management controls and techniques, licensing arrangements, and the transition from domestic operations to global ones.

INDUSTRIAL RELATIONS

PROBLEMS IN APPRAISAL PROGRAMS. By Harold F. Adams. *Journal of the American Society of Training Directors* (330 West 42 Street, New York 36, N.Y.), September, 1959. $1.00. Management appraisal and counseling programs often waste time and money, maintains the author, because of their insufficient preparation, lack of clearly defined objectives, use of one all-purpose procedure for every appraisal, over-emphasis on personality traits, and lack of objective standards. In discussing ways of improving appraisal programs, the author recommends more accurate job descriptions, clearer evaluation of job performances, and better-prepared appraisal interviews.

HOW TO EVALUATE THE "INTANGIBLES" IN PERSONNEL SELECTION AND PROMOTION. By Richard Paulson. *Office Management* (212 Fifth Avenue, New York 10, N.Y.), August, 1959. 45 cents. The lack of a standard guide or tool in evaluating employees' over-all experience and capacities can cause a deserving employee to be passed over at promotion time, while his fellow employee with fewer qualifications receives a sizable wage increase, the author maintains. For a more precise measurement of employee merit, he offers his Base Salary Evaluation Plan, consisting of two forms—Form A for salary evaluation and Form B for performance review—based on a numerical evaluation (a set number of points for specific job experience, training, skill, etc.), the total points on Form A equalling monthly base salary, and on Form B, monthly rate of pay increase.

HOW NOT TO HANDLE PRODUCTIVITY DISPUTES. By James J. Foley. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1959. Reprints $1.00. In this discussion of questions concerning worker productivity (What is a fair day's work? Is the productivity dispute a proper subject of arbitration? Are companies relegating to the arbitrator administrative problems that management cannot itself answer?), the author maintains that the proper function of arbitration is to establish output potentials, while it is management's responsibility to motivate workers toward realizing their potentials. He presents four case histories involving restrictive arbitration, to show that disputes involving productivity standards cannot be separated from job and human values.

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OFFICE

THE PHYSIOLOGICAL ENVIRONMENT OF THE OFFICE. *Office Executive* (1927 Old York Road, Willow Grove, Pa.), November, 1959. 50 cents. Today's office is a bright contrast to the dull, drab work environment of 20 years ago, according to the results of a recent survey of working conditions—space, lighting, temperature, etc.—in more than 1,900 business, industrial, and service organizations in Canada and the U.S. Trends toward lightness, brightness, and comfort were revealed by the following facts: 72 per cent of the respondents had installed air conditioning in their offices; 62 per cent allow 60 to 80 square feet per person; 75 per cent have sound-conditioned offices; painted walls with pastel colors are strongly preferred over other types of wall covering; and composition flooring is preferred over wood, marble, or terrazzo.

THE WAR OF THE COMPUTERS. By Francis Bello. *Fortune* (9 Rockefeller Plaza, New York 20, N.Y.), October, 1959. $1.25. Computer builders are gambling half a billion dollars on the belief that even small companies can profit from electronic data processing, reports the author in this article on some of the problems the computer makers are facing (the market for electronic computers is now about $1.5 billion and is expected to grow fivefold in the next decade, but at the moment, most computer manufacturers are losing money). The industry hopes to satisfy its customers in the future with new machines that can handle new kinds of jobs (for example, machines that can "read" printed characters instead of working from punch cards), and with large data processing centers that will rent computers by the hour.

MARKETING

THE MONEY LEFT OVER FOR THE GOOD LIFE. By Charles E. Silberman. *Fortune* (9 Rockefeller Plaza, New York 20, N.Y.), November, 1959. $1.25. Despite their reputation for being conspicuous spenders, Americans are a remarkably prudent people, maintains the author, who explores the ways in which consumers are and will be spending their discretionary income, which will amount to $84 billion this year. Leisure spending will rise no faster than income, he reports, while medical and educational expenditures are expected to double over the next decade, savings will hold their present proportion of income, and more Americans will invest their money in securities.

SELLING THE CONSUMER ON NEED FOR "SECONDS." *Business Week* (330 West 42 Street, New York 36, N.Y.), September 5, 1959. 50 cents. U.S. industry is urging customers to buy second furnaces, telephone lines, air conditioners, TV sets, and even homes, reports this article. Douglas Fir Plywood Assn. has received surprising results from its initial promotion to sell vacation cabins to augment year-round dwellings: 179,000 requests for brochures and 57,000 requests for cabin plans. Eight million families already own two or more cars, and for many other manufacturers, the market for duplicates is a reality. One reason is the larger size of the American family, with resulting demands for extra facilities.

SEVEN FALLACIES IN MARKETING LOGIC. By Fred T. Schreier. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1959. Reprints $1.00. Analyzing the logical process from information to decision-making in marketing, the author discusses seven pitfalls to avoid—all in-

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volving the futility of translating survey findings into guides for action without such additional measurements as motivational weights and predictions concerning future situations not covered by the survey. Even if a marketing manager has the correct measurement of the motivational power of some factor (style, price, etc.), there remains the question of whether it should be used in advertising (e.g., although it was a factor common to all brands, the convenience of instant coffee was promoted for some time, even after surveys indicated that almost all housewives took it for granted).

RESEARCH AND DEVELOPMENT

HOW TO GET PROFITS—NOT PROBLEMS—FROM CREATIVE PEOPLE. By Joseph D. Ardleigh. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), November, 1959. Reprints 50 cents. Creative people can cause management headaches as well as generate profits, says the author, but there are ways of eliminating the headaches and achieving maximum results from original thinking. Among the steps he recommends are properly identifying the creative people within the organization, balancing supervision and freedom, stimulating the researcher's initiative, keeping him aware of company goals, and giving him some time to himself.

THE PLASTICS SPECIALIST: WHERE TO FIND HIM, HOW TO USE HIM. By Robert Rockwood. *Industrial Design* (18 East 50 Street, New York 22, N.Y.), September, 1959. $1.50. Although the designer makes the preliminary material choice for a product, the final selection of a plastic requires the technical knowledge of a plastics expert, who can be found on the staff of most plastics raw material suppliers, according to this article, which includes a directory of plastics suppliers listed under generic classifications for various plastics (acetal, acrylic, etc.). In addition, the author provides a glossary of technical terms to aid the designer.

PACKAGING

NEW WAYS OF PACKAGING FOR PROFIT: Part I—Consumer Packaging; Part II—Industrial Packaging. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), October and November, 1959. Reprints 30 cents. Industry will spend an estimated $16.5 billion this year on packaging, according to this two-part article, which reports on trends in consumer and industrial packaging gathered from a recent survey of 1,000 large manufacturers and from reports of leading packaging engineers and laboratories. Some of the major trends discussed are: (1) the increase of post-purchase features that give the packages a second use; (2) more market testing of packages; (3) the adoption of lighter-weight packaging to meet rising transportation costs; and (4) greater integration of package designs with ad campaigns and corporate identity programs.

1959-1960 AEROSOL BUYER'S GUIDE. *Aerosol Age* (Box No. 31, Caldwell, N.J.), October, 1959. $1.00. The magazine's third annual source listing of aerosol products and services will interest those concerned with pressure packaging. Among the guide's 78 categories are consultants and research agencies, and manufacturers of containers, fillers, tubing, laboratory equipment, mixing and testing devices, and packaging equipment. The rapidly growing role of food aerosols has resulted in the addition of a separate listing for aerosol food valves in this year's edition of the guide.

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How Industry Pays Its Salesmen

(*Continued from page* 25)

ranges for sales positions, and then providing a suitable incentive bonus opportunity to motivate the salesmen to a superior over-all performance.

In line with this trend, more salesmen are being given the same fringe benefits that other employee groups receive. Thus, a recent survey of 178 large companies showed that, in over 95 per cent of these concerns, salesmen enjoyed pension benefits, life insurance, sick leave, vacations, and hospital, medical, and surgical insurance equivalent to benefits received by other employees.

THE SALESMAN'S DUTIES

In most companies, the typical salesman's duties and responsibilities will break down into (1) increasing sales volume, (2) controlling his expenses, and (3) satisfactory performance of nonselling assignments. The bonus plan developed for any company can involve one, two, or all three of these categories.

In each company, it will be necessary to determine the relative significance of the categories used and hence what proportion of the over-all bonus opportunity should be assigned to each category. Next, of course, for each category used in the plan, a fair standard of performance and a realistic basis of measuring each salesman's actual performance must be developed.

The plan must be kept simple enough to be readily understood by all who are affected. Many an otherwise sound plan has failed because the sales group involved did not understand its workings and, accordingly, were suspicious of the whole program.

Measuring Sales Volume

Salesmen are usually assigned specific territories in which to work. Depending upon the nature of the products sold and the sales objectives of the companies involved, some territories may be as small as a single town, while others may comprise several states.

A sales quota is usually set for each territory, and each salesman is expected to fulfill his assigned quota. Unfortunately, many companies establish sales quotas about as scientifically as a woman

selects a hat. In some cases, salesmen are asked to estimate the sales quota for their territory—and when salesmen know that their sales performance will be assessed against the quota, their estimates are likely to be more pessimistic than optimistic. In other cases, past sales records in a territory are used as a basis of determining a sales quota; this obviously benefits poor past performers and penalizes good past performers with a high quota.

Sales quotas can best be established by making a market research study of the sales potential of each product in each territory. Such a study involves these factors:

1. An analysis of the potential market in each town, city, and county in the territory.
2. An analysis of regional and national economic trends.
3. Knowledge of the channels of distribution for the product.
4. Knowledge of the competition's products and the extent of their sales penetration.
5. Knowledge of the buying habits of the customers.
6. Knowledge of the way the product is used by the final purchaser.
7. Knowledge of one's own company's planned sales promotion and advertising programs.

When sales potential is known, a reasonable sales quota can be set. Such an analysis might also result in the changing of some territory limits. The various territories should be reasonably well balanced, in terms of both sales potential and the time and effort they require of the salesman.

Once the sales quota has been established, the salesman's actual sales can be compared with the quota to measure his effectiveness.

In some situations, it might be desirable to give the salesmen extra credit for other aspects of selling in addition to over-all volume of sales. Thus, extra bonus points or credits might be granted for opening new accounts, for deeper penetration of existing accounts, for balanced selling of a full product line, or for increased volume on certain selected items in the line.

Controlling Salesmen's Expenses

The prime basis for controlling salesmen's expenses is to have a clear, written statement of company policy covering the specific items

for which salesmen will be reimbursed. Two other important control features are (1) to require receipts for major expense items, such as railroad or airline tickets and hotel bills; and (2) to require weekly submission of expense reports, with itemization showing how much was spent, where, when, why, and with whom.

The real control of salesmen's expenses is to have an experienced sales manager carefully review salesmen's expense reports before approving them for payment. Anyone who has spent years traveling on an expense account can quickly sense when such expenses are out of line.

In most cases, it is feasible to establish a norm for salesmen's expenses after consideration of past records, the kinds of products and selling involved, size of territories, and means of transportation. Such norms should be reviewed and discussed with the salesmen themselves to secure their viewpoints and gain their acceptance of the expense standards finally established. Expense norms can be expressed in terms of time—i.e., so many dollars allowed per day or week for expense purposes—or in terms of sales volume. Of the two approaches, the latter will be more likely to help keep selling expenses in line with sales volume.

Once a norm for salesmen's expenses has been established, the actual expenditures of salesmen can be measured against the norm, and bonus points, which are subsequently convertible into bonus dollars, can be allowed accordingly.

Appraising Nonselling Performance

Depending upon the specific situation, the salesman's nonselling duties might consist of such items as preparing reports and records, securing display space, sales service calls, investigating customer complaints, or training new salesmen.

Unlike salesmen's expenses and sales volume, which can be measured objectively, the salesmen's nonselling performance will usually have to be appraised on a subjective basis. However, this does not mean that pertinent evidence shouldn't be gathered and considered.

A salesmen's incentive bonus plan is no substitute for good sales management. Even with an incentive plan the careful selection, training, and supervision of salesmen are important. During the course of the necessary field contacts with salesmen and during visits

to customers, sale managers should gather factual evidence and crystallize their impressions of how effectively salesmen perform their nonselling tasks. The performance of each salesman can then be categorized as superior, satisfactory, or unsatisfactory on each item, and bonus points allocated accordingly. Of course, the ratings given should be based upon observed facts and reviewed with the individual salesmen.

CEILINGS ON SALESMEN'S EARNINGS

Many salesmen paid on a commission or incentive bonus basis have very large earnings. In fact, some salesmen receive more than the top executives in their companies. For example, a paint and varnish company with $7,500,000 annual sales had 30 salesmen paid on a commission basis. Six of the salesmen made over $40,000 a year, and three made more than $50,000. The president's salary and bonus amounted to $42,000. In another case, a salesman in the soft drink business averaged over $200,000 a year for four years, or twice as much as the president of the company received.

In cases such as these, either the bonus or commission rate was set too high or unexpected windfalls arose to increase the salesmen's earnings far more than anticipated.

There should be some limitation on salesmen's earnings to prevent windfalls or unforeseen contingencies from raising their compensation to totals far out of line with that of other company executives. However, this should be a two-way street. If unforeseen contingencies make the incentive bonus plan too restrictive and penalize the salesmen, the plan should be modified temporarily or permanently to meet the needs and logic of the situation. It is easier to convince the salesmen of the logic of a ceiling on earnings if there is also a floor in the form of a reasonable salary and if they participate in the same fringe benefits as other employees.

Some plans control salesmen's earnings by limiting the size of territory or the number of accounts they can handle. Other plans provide for a specific limit on commission or bonus earnings—either as a dollar limit or as a percentage of salary—or adjust the mechanics of a point bonus plan to achieve the same result.

Once the incentive bonus plan has been thoroughly tested and put into operation, it should be guaranteed against change for a

reasonable period of time. It should be clearly understood, however, that the plan will be reviewed at the end of each year and adjusted whenever it proves necessary to make the plan more equitable to the sales force or to the company.

SECURING PROFITABLE SALES

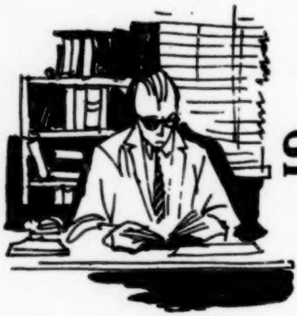
There is no single ideal plan for motivating and compensating salesmen, but a sound and effective plan can be developed to fit the needs of almost every company situation. A sound plan will be fair and reasonable to all concerned, relatively simple in design, and economical to operate. It will be based on factors over which the salesman has some control, and it will not overpay salesmen in times of high business activity and underpay them when adverse conditions prevail.

Many benefits will accrue to the company from such a plan. It will reduce or control selling costs, reduce turnover, and facilitate the recruitment and training of salesmen. Most important, it will provide the necessary incentives for securing the profitable sales that are so vital to the success and growth of the company. ♦

NOTE TO UTOPIANS

Sharing the wealth is a dream
That will blossom in social gains
When somebody thinks up a scheme
For also sharing the brains.

—Georgie Starbuck Galbraith



SURVEY OF BOOKS FOR EXECUTIVES

MEN AT THE TOP. By Osborn Elliott. Harper & Brothers, New York, 1959. 246 pages. $3.95.

Reviewed by
*Forrest H. Kirkpatrick**

The managing editor of *Newsweek* magazine has made a notable contribution to the growing bookshelf that might be labeled "Business Street of the 1950's." Osborn Elliott's book is about the men who hold top management positions in American industry. He writes about their different backgrounds, motivations, home life, civic responsibilities, club memberships, and participation in politics. Intermingled with the personalities, anecdotes, and other intimate, fresh material about these "men at the top" are chapters discussing the professional manager versus the manager who "grows up in the job," executive search organizations, the composition of boards of directors, and the executive who goes to Washington for a special assignment.

Though undeniably lively and interesting, the book is somewhat uneven, both in the structure of its various chapters and in the comprehensiveness with which the author treats specific subjects. But he has assembled a great amount of significant information which in sum effectively shatters the stereotyped concept of the business tycoon.

Mr. Elliott's approach is strictly factual. He draws no conclusions and points up no morals. He shows us the chief executive officer of the corporation at his desk (although not all of them have desks), in his home, in his club life, at work, and on vacation. He even shows us some of these men sparking the community fund campaign and either running for or running from public office.

Among the best chapters in the book is the one entitled "The Pride of the Pro," in which the author discusses the growing professionalism of management:

> Business is still the youngest of the professions, and it still is regarded by many with almost as much suspicion as the oldest, even though three-fourths of the American population is engaged in some form of business. The novelists have helped stoke the fires of skepticism, continuing to view the

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> businessman as a boor, or a sharpie—or at best a dullard. "The businessman comes on stage," wrote Crawford Greenewalt in *The Uncommon Man,* "as an uncouth character who scoffs at all cultural pretensions and who will stop at nothing to fill his pockets. It's not a pleasant concept, and it is not any closer to the truth than our other stereotypes: The absent-minded professor, or the drunken reporter, the long-haired musician, the interfering mother-in-law, or the plumber who arrives without his tools."
>
> But if the stereotype has not changed, the real-life businessman has. Today, more and more, he is a pro. This change has been marked by the birth of more than one hundred graduate business schools all over the country, dedicated like AMA to the proposition that business is a pursuit for professionals. Among these new institutions, none has done more to professionalize management than the Harvard Business School. In its day, it has turned out twenty-three thousand graduates and sent them into almost every field where a man can turn a profit—and many where he cannot. . . . The graduates of the class of 1949 already *average* $14,000 a year.

The chapter, "Mr. Executive Goes to Washington," is a good summary of the trials and tribulations besetting the executive who makes "the big switch to public life." Pointing out that to the "ordinary businessman, accustomed to the manners and mores of commerce, the Washington atmosphere is an enigma," Mr. Elliott comments:

> Too many businessmen who go to Washington arrive with too little real understanding of the separate and distinct roles of the legislative and executive branches of the government—the checks and balances that have been built into the system and effectively protect the democratic process, but which at the same time make clear-cut decision and fast action difficult to achieve. Joseph M. Dodge, the Detroit banker who was President Eisenhower's first budget director, puts it this way: "Too often, the businessman has no comprehension of the obstacles to accomplishment in government—where he has to deal with a board of directors of more than 500 people (the House of Representatives) whom he didn't even help select, and cannot hope to control; where there are no private disputes—they're all public; where you have consistent opposition. The result is that the executive who is used to making plans and having them acted upon finds many frustrations. He must compromise in a way he ordinarily wouldn't, and often must end up with selecting the 'least worst' alternative course of action."

Much interesting material on matters of current concern to management men is contained in the chapters on "The Civic Life" and "Politics: Together We Stand?" Though Mr. Elliott discerns some signs that corporations are beginning to question the extent of the role they should play in community charitable and educational activities, and though he also notes that the "road of do-goodism has served as a golden highway for more than one man on his way to the top," he pays due tribute to the genuine measure of altruism in the involvement of so many top executives in charitable and civic affairs.

Some more information might have been given about the educational and professional backgrounds

of today's top managers. Not much light is thrown on the question as to what kind of academic training—whether liberal arts, engineering, or legal—best fits a man for the top executive spot. Nevertheless, this is a lively and provocative book that can be read with pleasure—and profit—both by men on their way and those who have already "arrived," as well as by anyone who is simply interested in the current crop of business tycoons.

ADMINISTRATIVE VITALITY.

By Marshall Dimock. Harper and Brothers, New York, 1959. 298 pages, $5.00.

*Reviewed by Lawrence Stessin**

A few years ago, a businessman told Marshall Dimock, "I'd give $100,000 if someone could tell me how to keep this corporation as hard-hitting as it's been in the past."

At the risk of sounding rather crass, I would suggest that the author of the above offer now be prepared to pay up, because *Administrative Vitality* is certainly a bold and imaginative series of prescriptions on how to avoid hardening of the entrepreneurial arteries. But the book is not a comfortable one to read. The symptoms that Mr. Dimock calls the beginnings of corporate senility will will be all too familiar to the executive who has given any thought to the constant battle that modern business must fight against formalism, sluggishness, rigidity, and just plain boredom. And the section called (it is hoped with no glee) "Famous Last Words of Administrators" reads like a dirge for companies that have fallen by the wayside of bureaucratic decay.

Mr. Dimock entertains a reasonable and orthodox thesis: "Bureaucracy is in large supply . . . enterprise is fading and needs to be restored." Thus, he regards hierarchy, specialization, rules, and impersonality as the Four Horsemen of bigness that sap an organization of its vitality.

If only there were a simple method for draining the "bad blood" out of an enterprise and injecting in its place a spirit of innovation and adaptation to change! But Mr. Dimock doesn't minimize the difficulty of making such a transfusion. As with all practical examples, none of his case histories of successful transformations will exactly fit *your* situation.

But it is precisely the ability to revitalize a company on the downgrade that separates the men from the boys in the executive league. An example right out of today's business pages is the case of American Motors, which has resurged from a veritable corpse to become the liveliest auto-maker on the commercial scene. After four presidents tried to arrest the decay of this corporation and failed, George Romney came along and infused it with the kind of vitality that has made the company the hottest thing in Wall Street. While the author does not deal specifically with this revival, he does analyze the chemistry that turns the dead or dying corporation back into a living organism.

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Mobility, says Mr. Dimock, is the clue to a successful enterprise. The administrative implications of the principle of mobility, he goes on to point out, are:

1. A continual search for new products, new techniques, new methods.
2. Enterprise objectives must be made clear, but top management should be prepared to modify them quickly to take advantage of new needs and opportunities.
3. Industry locations must be mobile. When effective demand or a better source of raw materials or improved transportation is to be found elsewhere, the company must migrate or lose ground to competitors.
4. Consumer choice must be mobile. If a line of goods is too rigid or becomes outmoded and consumers are not offered new or alternative choices, a competitor will fill the gap.
5. Prices must be mobile. If lower prices resulting from efficient operations are not passed on to consumers, a rival will take advantage of the opportunity and reduce his price or offer a desirable substitute.
6. Top management must never hesitate to alter the organization structure to make the best use of outstanding talent wherever it appears.
7. Organization structure must be gradually reshaped when necessary to accord with newly defined objectives and policies required to keep pace with social change.

Although Mr. Dimock is an academician (he heads the Department of Government of New York University), he doesn't let theory dominate his presentation. Whatever concepts he develops are bolstered with many examples drawn from actual corporate successes and failures. This book might have been a piece of pure reasoning. As it is, it constitutes a seasoned commentary for the practicing manager.

Briefer Book Notes

(Please order books directly from publishers)

OFFICE

SYSTEMS AND PROCEDURES RESPONSIBILITY. By Philip H. Thurston. Graduate School of Business Administration, Harvard University, Boston, Mass., 1959. 110 pages. $2.50. Emphasizing the growing importance of joint effort between line and staff personnel, the author outlines the parts played by each in procedures work. He goes on to analyze the essential problems faced by manufacturing companies in planning and installing a data-processing system, with implications for companies engaged in other types of business.

PROGRAMMING BUSINESS COMPUTERS. By Daniel D. McCracken *et al.* John Wiley & Sons, Inc., New York, 1959. 510 pages. $10.25. Addressed to the manager who needs to understand the day-to-day application of

electronic computers to business data problems, this book covers such fundamental subjects as the nature of the data-processing problem, flow charting, and the central concept of the file. Examples are given in terms of a hypothetical computer whose principles can be applied to actual machines.

PROGRAMMING FOR DIGITAL COMPUTERS. By Joachim Jeenel. McGraw-Hill Book Company, Inc., New York, 1959. 517 pages. $12.00. Designed for the manager with no previous programming experience, this is a comprehensive discussion of principles and techniques applicable not only to commercial data processing but to scientific and technical problems as well. Among the topics covered are indirect addressing, randomized addresses, random-access storage, and in-line processing.

DIGITAL COMPUTER PRIMER. By Edward M. McCormick. McGraw-Hill Publishing Company, Inc., New York, 1959. 214 pages. $7.50. An introduction to the fundamentals of digital computers. Describing in non-technical terms how these computers work, what they can do, and their engineering, electronic, and accounting aspects, the author covers such subjects as elementary coding, organization of computers, and number systems. A general bibliography is provided.

ELECTRONICS IN BUSINESS. By Gardner M. Jones. College of Business and Public Service, Michigan State University, East Lansing, Mich., 1958. 106 pages. $3.50. Describes and appraises the present value and future potential of electronic computer systems, with emphasis on their implications for the business executive.

PREPARING THE OFFICE MANUAL. (Research Study No. 36.) By M. Graham Kellogg. American Management Association, Inc., New York, 1959. 72 pages. AMA members, $1.50; non-members, $2.25. An AMA research study based on a survey of 134 companies. A number of pages from actual company manuals are reproduced.

RECORDS RETENTION: *A Practical Guide*. By William E. Mitchell. Ellsworth Publishing Company, New York, 1959. 48 pages. Single copies, $5.00. A practical records retention program, designed to assist the manager faced with the problem of discarding costly and time- or space-consuming records. Federal and state requirements in this area are taken into account.

BUSINESS EXPERIENCE WITH ELECTRONIC COMPUTERS. By B. Conway *et al.* Controllers Institute Research Foundation, Inc., New York, 1959. 191 pages. $5.00. A guide for the manager responsible for the planning, choice, and control of an electronic data-processing program. Discusses the determination of what work is to be processed, selection of equipment, and company education and public relations, and predicts the status of EDP in the next five years.

HANDBOOK OF AUTOMATION, COMPUTATION, AND CONTROL: *Computers and Data Processing*. (Volume 2.) Edited by Eugene M. Grabbe *et al.* John Wiley & Sons, Inc., New York, 1959. 1,020 pages. $17.50. This second volume of a three-volume handbook is concerned with the

design and use of analog and digital computers and data processors. In addition to covering the status of current knowledge in these fields, it contains chapters on unusual computer systems and magnetic core and transistor circuits, as well as an advanced treatment of programing. Not for the nontechnical reader.

SYSTEMS AND PROCEDURES: ***A Handbook for Business and Industry.*** Edited by Victor Lazzaro. Prentice-Hall, Inc., New York, 1959. 464 pages. $10.00. A comprehensive reference containing recent data on and evaluations of such techniques as work measurement, forms control, and systems analysis. Other chapters, prepared by authorities in their respective fields, discuss the systems and procedures department, the management audit, work simplification, and records management.

IDEAS FOR MANAGEMENT: ***The 11th Annual International Systems Meeting.*** Edited by Colver Gordon. The Systems and Procedures Association, Detroit, Mich., 1959. 440 pages. $16.00. This collection of the papers, case histories, and workshop discussions of the ISM meeting, held in Buffalo, N.Y., offers an overview of current and advanced systems thinking in the management field. Among the numerous topics covered are British, European, and Asian business systems; the productive office; management and EDP; factory and office automation; work reduction and measurement techniques; and systems tools and techniques. Also included are an account of the Systems Manager's Administrative Rating Test and a complete list of courses currently offered by American universities and colleges in systems work, EDP, OR, and related management services.

PRODUCTION

STATISTICAL QUALITY CONTROL: ***An Introduction for Management.*** By D. H. W. Allan. Reinhold Publishing Corporation, New York, 1959. 129 pages. $3.50. The author examines, in nonmathematical terms, such questions as what quality control is, what it will do, how much it costs, and who does it. Discussing individual methods, their objectives and applications, he goes on to outline the duties of the quality control engineer. Includes a report by the American Society for Quality Control Special Committee on Professionalism.

PRODUCTION CONTROL. By Nyles V. Reinfeld. Prentice-Hall, Inc., New York, 1959. 339 pages. $8.00. A practical guide to the principles of production control based on seminars and roundtable discussions with over 1,500 production control men throughout the United States and Canada. An appendix provides discussion questions and problems found to be most prevalent among the production control men surveyed.

SAMPLING INSPECTION TABLES: ***Single and Double Sampling.*** (Second Edition.) By Harold F. Dodge and Harry G. Romig. John Wiley & Sons, Inc., New York, 1959. 224 pages. $8.00. Features of this edition are a new chapter on operating characteristic curves, which describes how they

are used to determine how particular sampling plans will operate for all levels of presented quality, and an expanded introduction. Two new appendices are also provided.

QUALITY CONTROL AND INDUSTRIAL STATISTICS. (Revised Edition.) By Acheson J. Duncan. Richard D. Irwin, Inc., Homewood, Ill., 1959. 946 pages. $10.80. Four new chapters have been added to this edition—two dealing with government work on variables sampling, another discussing the Department of Defense's *MIL. STD 414*, and a fourth giving separate treatment to sampling by variables. Additional material on multiple comparisons and the ranking of means is also included.

PRODUCTION CONTROL. (Second Edition.) By Franklin G. Moore. McGraw-Hill Book Company, Inc., 1959. 655 pages. $8.00. This edition takes account of the growth of operations research and the increased use of computers in production control areas since the first edition was published. New material has also been provided on forecasting, estimating, the learning curve, inventory control, multiplant operations, and manpower loading, with emphasis on the importance of curbing control costs.

ORGANIZATION FOR PRODUCTION. (Revised Edition.) By Edwin Scott Roscoe. Richard D. Irwin, Inc., Homewood, Ill., 1959. 525 pages. $8.10. This elementary text on industrial organization and management covers all activities of the manufacturing enterprise, including financing and general accounting. Written in nontechnical language, it also includes a summary of the human factors in management.

INSURANCE

INSURANCE SURVEYS: *Business—Personal.* (Fourth Edition.) By R. G. Mielke. The Rough Notes Co., Inc., Indianapolis, Ind., 1959. 271 pages. $3.50. A guide for selling and making manufacturing, mercantile, and personal-risk insurance surveys. Included are chapters on steps in selling a survey, designing the insurance program, business interruption insurance, and preparation and presentation of reports.

INLAND MARINE AND TRANSPORTATION INSURANCE. (Second Edition.) By William H. Rodda. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1958. 594 pages. $8.65. The second edition of this comprehensive handbook includes new material on coverage for retail merchants and dealers. The author emphasizes such concepts as package and all-risk insurance, defining the all-risk policy and carefully noting the important differences between it and the all-loss policy.

READINGS IN PROPERTY AND CASUALTY INSURANCE. Edited by H. Wayne Snider. Richard D. Irwin, Inc., Homewood, Ill., 1959. 543 pages. $6.50. The excerpts, condensations, and reproductions collected here are divided into nine categories: risk and insurance, insurance carriers, insurance company

operations and problems, agency operations and problems, risk management, rating and rate making, property insurance, casualty insurance, and history of insurance.

FACTORS IN SPECIAL FIRE RISK ANALYSIS. By William D. Milne. Chilton Company—Book Division, Philadelphia, 1959. 165 pages. $10.00. A study of primary value to those participating in special risk inspection operations or for those who are charged with protecting large properties against fire loss. The interrelationships of the reports of field inspectors and the procedures of the examining underwriters in the insurance company offices is stressed, as are the obligations of the insurance companies, the keys to underwriting, and the procedures for the investigation of loss. Also covered are the various factors connected with automatic sprinkler systems, the construction of buildings, and occupancy hazards.

INSURANCE: *Principles and Practices*. By Frank Joseph Angell. The Ronald Press Company, New York, 1959. 894 pages. $7.50. Emphasizing the underlying principles of insurance, this text covers such subjects as the insurance contract, fire and marine insurance, casualty and surety insurance, life insurance, and insurance management and regulation.

PROCEEDINGS OF THE LIFE OFFICE AUTOMATION FORUM. Life Office Management Association, New York, 1959. 404 pages. $8.00 (plus 25 cents postage for nonmembers). Some of the topics covered in the proceedings of this forum, which was held in Chicago in April of 1959, are cost considerations, development of machine programs, peripheral equipment, group insurance applications, debit insurance applications, and a general approach to ordinary insurance systems.

Publications Received

(Please order books directly from publishers)

GENERAL

INTRODUCTION TO MODERN BUSINESS. (Third Edition.) By Vernon A. Musselman and Eugene H. Hughes. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959. 630 pages. $6.95.

INTRODUCTION TO PROBABILITY AND STATISTICS. By B. W. Lindgren and G. W. McElrath. The Macmillan Company, New York. N. Y., 1959. 277 pages. $6.25.

THE DEMAND FOR MONEY: *Some Theoretical and Empirical Results*. (Occasional Paper 68.) By Milton Friedman. National Bureau of Economic Research, Inc., New York, 1959. 25 pages. 75 cents.

BRIMSTONE: *The Stone That Burns*. By William Haynes. D. Van Nostrand and Company, Inc., Princeton, N. J., 1959. 308 pages. $5.95.

FACTS YOU SHOULD KNOW ABOUT REVOLVING CREDIT, INSTALMENT CREDIT, AND CREDIT LEGISLATION. By A. L. Trotta. Credit Management Division, National Retail Merchants Association, New York, 1959. 44 pages. $2.00.

STATE TAXATION OF INTERSTATE COMMERCE: *P.L. 86-272 Reviewed.* Machinery & Allied Products Institute, 1200 18 St. N.W., Washington, D.C. 44 pages. $1.00.

STARTING AND MANAGING A SMALL CREDIT BUREAU AND COLLECTION SERVICE. By Harold A. Wallace. Small Business Administration. Order from Superintendent of Documents, U.S. Government Printing Office, Washington 25, D. C., 1959. 187 pages. 60 cents.

ORGANIZING AND FINANCING BUSINESS. (Sixth Edition.) By Joseph H. Bonneville *et al.* Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959. 381 pages. $9.00.

STATISTICAL YEARBOOK, 1958. Statistical Office of the United Nations Department of Economic and Social Affairs, New York, 1958. 612 pages. $8.00 (paperbound, $6.50).

CORRECTION: Portions of the following listing were incorrectly noted in the November issue. The correct listing is as follows:

SOURCES OF FINANCING LATIN AMERICAN FOREIGN INVESTMENT AND ECONOMIC DEVELOPMENT. Prepared by the Foreign Investment Committee, Inter-American Bar Association, Washington, D.C., 1959. 33 pages. $4.00.

THE MANAGEMENT REVIEW

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(D) = Regular length digest
(B) = Brief item (less than one page)

(Feature) = feature article; (D) = regular digest; (B) = brief item

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